

The Canadian Chartered Accountant

OFFICIAL ORGAN OF

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

Published monthly; subscription \$3.00 per annum in advance; single copies thirty-five cents. Advertising rates sent on request.

The Editorial Committee will be pleased to receive contributions on subjects of interest. Papers which may not be deemed suitable will be returned, if desired.

Publication Office

10 Adelaide Street East, Toronto

W. A. McKAGUE, Editor.

VOLUME XLVI

MAY 1945

ISSUE No. 262

(The opinions expressed in articles in The Canadian Chartered Accountant are the opinions of the writers of the articles and are not necessarily endorsed by the Association.)

Editorial Comment

V-E Day Any reference these days in a magazine or periodical, to the war with Germany, must be discreet, because by the time it appears in print there may be no more war with Germany. But in view of the apparent reluctance of Germany to officially admit defeat through any formal surrender or armistice, we express a modest doubt whether there will be a V-E day in the popular sense. Instead, we may merely find ourselves informed that organized resistance has ceased. That will be a tame contrast to the jubilation that marked the armistice of 1918 from the banks of the Rhine to the furthestmost parts of the British Empire, but it will be consistent with colder atmosphere in which this entire war has been waged, and with the expectation that there still lies before us a campaign of attrition in the Pacific. A nameless situation in Germany would merely add that much more to the chaos of a world of wars, severed diplomatic relations, and armed occupations. But what we should hope for, at least, is a change from a rising to a declining tempo of militarism, armament and regulation, and the dawn of an era during which the co-operation of races and nations may gradually be restored.

Planning the Future Apropos of what the end of the European war will mean to our home economy, the Dominion Department of Reconstruction has produced a "white paper" concerning which the Minister said: "The government document that I have tabled sets out the policy which will be applicable, particularly to the transition period following the defeat of Germany. The document is specific in the measures which are proposed for this transition period. It is not possible at this time to be equally specific regarding later measures, although the pattern for later measures is indicated in the statement of policy which I am tabling." In view of the importance and possible length of this transitional period, the government may well be excused for not yet attempting to round the next corner. Meanwhile it may be commended on its broad-scale yet sensible approach to the problem, and especially on its recognition of private investment as the basis of our future life.

Double Depreciation While the need for private enterprise is stressed in the reconstruction report, there is also an evident intention to cling to controls. One of these is the extension of double depreciation to undertakings viewed as creative of stable employment. As pointed out in our editorial comment in April, such special treatment illustrates the "incentive" idea in taxation, the basic principle of which is at least questionable, and which further tends to make a government department, rather than the consuming public, the arbiter of success. The employment angle, which is so much stressed in public discussion today, is very difficult to appraise, and the net result may easily be temporary assistance to undertakings of high immediate employment rating, at the expense of those of more far-reaching value. The man who runs a cumbersome, labor-consuming plant may get his double depreciation, while if a genius were to invent a means for eliminating both the investment and the labor our tax system would give him no consideration at all. Of course double depreciation rates merely shorten the time for recovering the money invested in a capital asset, but there are various circumstances under which the privilege may be important; for instance, when a depression arrives, those who have made such recovery have the advantage.

Canada already has a lot of productive capacity developed on the basis of tariff, subsidy or other governmental support, while our taxes hit hardest at those activities which, lacking government help in any form, presumably are purely private in nature. We therefore trust that tax revision will bring down the high rates and the gross weight of taxation, and not rely wholly on selective controls within the present tax structure. After all, the most effective incentive should be the modification of some of the discouragements to which industry is now exposed.

Minor Tax Troubles One of the added difficulties in the making of tax returns in these war years has been the adoption of several radical changes taking effect mid-year. These included the national defense tax and compulsory savings, and now comes the family allowance. When both adoption and abandonment take place during tax years, the difficulties are doubled. The national defense tax went on in 1940, and it ceased in 1942—or rather was absorbed in a more comprehensive system of deduction at the source which started during that year. The compulsory savings feature came on in 1942 and went off in 1944. Since the family allowance also starts mid-year, presumably whatever tax modification relates to it will take effect from the same date; whether this new device will be supplanted, or absorbed in something else, we do not know. The net result has been that in scarcely a single year of the entire war period have we been able to make a personal return in which the same base or the same rate applied throughout the year. The compulsory savings or refundable tax calculations in the 1942 and 1944 returns illustrate just about the last word in obscurity; the surprising thing was that, provided one filled in each space with meticulous care, he arrived at a result that looked reasonable.

This confusion is in part caused by our practice of having parliamentary sessions early in the year, and in part by the desire to give effect, for various reasons, as quickly as possible to the amendments to the tax law. In more leisurely times there should be no need for the changes to take effect until the subsequent tax year, and it is hoped that this measure of simplicity will soon be restored to us.

*Tax
Payment
Dates* Another bad habit that seems to be growing upon us is the one of postponing payment dates. When taxation was being abruptly increased, there was perhaps some justification for this, although it would have been equally sound to argue that, if the amount were too much for the taxpayer to have ready on the specified date, then its incidence should have been delayed in the first place until the start of the new tax year. This year, with some modification due to the elimination of compulsory savings, there is less ground for a postponement, and apparently the only excuse is possible interference with, or from, a war loan campaign, which strictly speaking is a financial operation of another sort. Whatever the other considerations may be, we at least are establishing the impression that a due date, being regularly subject to postponement at the eleventh hour, is of little consequence. In addition, we are encouraging the habit of deferring obligations, in direct conflict to the whole plan of source and instalment collection, which seeks to have the collection keep pace with the income.

*The
Returning
Student* In this issue we publish a report of a special committee of our Association on the problems of the man, or the woman, entering the profession of accountant after serving with the forces. While some thought has been given to those who already are chartered accountants, and plans are advanced for "refresher" courses, the main consideration has been for those who are still in the student stage and who therefore face the task of returning to study as well as to work. As there now are over one thousand students of the profession in Canada, and several hundred in the forces, the number who have to be considered is greater than ever before. Our Committee has been in close touch with the provincial institutes and with the government departments dealing with discharge and training, and it is hoped that the most practicable and satisfactory arrangements have been reached.

Report on Rehabilitation

A report prepared by a sub-committee of The Dominion Association of Chartered Accountants and distributed to the presidents and councils of the provincial institutes under date February 1, 1945.

IN AUGUST 1943, a sub-committee on post-war rehabilitation of chartered accountancy students was appointed by the Dominion committee on education and examinations, consisting of the undersigned and the members of the board of examiners-in-chief. An interim report, to which reference is made on pages 11 and 12 of the Dominion Year Book for 1944-45, was submitted at the annual meeting held at Saint John, N.B., last fall and the sub-committee was instructed to continue its work with a view to communicating directly with the provincial institutes as soon as conditions warranted.

Following subsequent correspondence and interviews with officials of the Department of Pensions and National Health in Ottawa and Toronto, it was concluded at a recent meeting of this committee that the communication herein should now be addressed to the provincial institutes.

We regret to advise that whereas the department recognizes the merits of the plan of progressive minimum salaries and maximum governmental benefits, based on the "progress and position" of the returned student-in-accounts, which we duly submitted, it could not adopt the same as this would have involved a fundamentally different treatment of our profession from that accorded to others. The payment of vocational maintenance and other grants under the government's plan as provided for in the Post-Discharge Re-establishment Order (P.C. 5210) and regulations formulated thereunder is based essentially on the "need" of the veteran, and its continuance is conditional upon his making satisfactory progress in the training selected. Numerous improvements have been made in the order as originally constituted, partly we believe as a result of our submissions, and with the co-operation of our profession we believe that the ex-service student-in-accounts will be given the opportunity which he so richly deserves.

We have therefore prepared the attached memorandum with the intention that the information which it contains shall form in part the basis of a communication which

should be addressed by the council of each provincial institute to all its students and members who are serving in His Majesty's Forces at home and abroad. It should also prove of assistance in dealing with those men who have been discharged already and who are returning to the profession or seeking admission to it for the first time.

The primary object of the plan cannot be too clearly emphasized, namely to provide means whereby returned service men and women may become well trained and self-supporting citizens. Thus it is extremely important that the moneys made available for this purpose be spent wisely and effectively. Close and intelligent supervision over the returned man's training and advancement should be maintained during the process of his rehabilitation in the accounting profession so that if he proves unsuited therefor he may be directed through the Department of Veterans' Affairs to some other occupation or course of training for which he is better qualified, before the funds available to him for this purpose have been exhausted. It should be here pointed out that in non-professional pursuits the period of training with maintenance grants is limited in most cases to 52 weeks.

With the above object in mind and with a view to collaborating with the office of the Department of Veterans' Affairs in each leading community, it is suggested that a special committee be appointed by each provincial council. This committee should keep in touch with the central committee from which this communication issues so that the greatest degree of collaboration may be maintained in the interests of our returned men. It should familiarize itself thoroughly with the contents of the attached booklet "Back to Civil Life"* and Order in Council P.C. 5210.

It is our feeling that the importance of paying adequate salaries to all ex-servicemen should receive careful consideration so that the payment of maintenance grants to students by the department will not be allowed to act indirectly as a subsidizing of the profession. With this end in view, the council of each institute may see its way clear to establish a suggested scale of minimum salaries to be paid ex-service personnel for the guidance of its members,

*Copies of "Back to Civil Life" are obtainable from the Department of Pensions and National Health, Ottawa.

and it is suggested that the action taken from time to time in this regard by employers might be reported regularly and confidentially to the special local committee above referred to.

Whereas it will be the wish of the profession to welcome new entrants from the services as students-in-accounts, it will be our primary duty to protect and assist those who were registered students before enlistment, many of whom are still overseas and may not be discharged until long after new entrants become available.

In connection with the payment of maintenance grants, we are informed that these will be disbursed by monthly cheques issued by the department in favour of the student and sent to the employer for distribution at the end of each month. Regular reports from the employer, and possibly the special local committee, dealing with continued employment and progress by the student, will be required by the department. As in the case of university students who fail to pass their examinations from year to year, it is entirely possible that like failure on the part of chartered accountancy students might be interpreted by the department as lack of adequate progress and lead to discontinuance of the rehabilitation benefits under the order.

The attached memorandum does not attempt to deal with the steps which are being taken by the provincial institutes to reduce entrance requirements, curtail the length of courses and of service in the office of a chartered accountant, and to introduce refresher courses for recent graduates, etc. This is, of course, an extremely important subject and should be dealt with fully in the communication which it is hoped each institute will see fit to send its students in the forces in the near future.

We would be pleased to secure and provide any further information which is not available from the local authorities and to assist wherever possible the institute committees when they are duly appointed.

In closing we would like to place on record our appreciation of the kindness and courtesy received from the Honourable Ian A. Mackenzie, Minister of Pensions and

National Health and of Veterans' Affairs and from the officers of his departments.

Respectfully submitted,

Committee on Post-War Rehabilitation of Students

Gerald Jephcott, Chairman.

**Post-Discharge Re-establishment of Chartered Accountancy
Students Serving with His Majesty's Forces**

1. The Dominion government has provided opportunities and benefits of various kinds, through the enactment of statutes and passing of orders in council, so that men and women who have taken up arms in the defence of their country shall not suffer unnecessarily for the time they have spent in the services and so that they shall become fitted in every way possible to take their place in Canada's civil and economic life.

2. Literature dealing with this subject has been published from time to time by the Department of Pensions and National Health, the Department of Veterans' Affairs, the Wartime Information Board and other governmental bodies. We are informed that a comprehensive booklet entitled "Back to Civil Life" issued under the authority of the Honourable Ian A. Mackenzie, Minister of Pensions and National Health, has been distributed to all members of the forces in Canada and overseas.

3. The following memorandum which contains certain excerpts from the data above described has been prepared by the committee on student rehabilitation of the D.A.C.A. for the primary purpose of providing information of interest to registered students-in-accounts, who intend to resume their professional training upon discharge from the forces, and to their employers. Thus it is concerned essentially with the operation of the Post-Discharge Re-establishment Order (P.C. 5210) as affecting the chartered accountancy student and does not attempt to deal with other matters of interest generally to all returning service personnel such as

(a) Pensions for disabilities.

(b) Re-instatement in Civil Employment Act whereunder the employer is required to re-employ the ex-serviceman who was a bona fide permanent employee upon enlistment and makes application for re-instatement within a specified time of discharge.

REPORT ON REHABILITATION

(c) Continuance of unemployment insurance benefits upon resumption of insured employment.

(d) The Veterans' Land Act, the main purpose of which is to assist qualified ex-servicemen (1) to buy and own a farm to be operated on a full time farming basis, or (2) to buy and own a rural or semi-rural home (small holding) with the main income earned from industrial or other employment in the community or in the commercial fishing industry. The maximum benefit contemplates an expenditure of \$4,800 for land and improvements and \$1,200 for livestock and equipment or for fishing equipment. At the time of application to purchase, the ex-serviceman must deposit 10% of the cost of land and improvements and sign a contract undertaking to repay only two-thirds of the cost of land and buildings over 25 years with interest at 3½% amortized. (Annual payment on \$4,800 expenditure would be \$194.14.) If the full expenditure of \$6,000 were made, the state conditional grant would amount to \$2,320 or 38% of the total cost.

(e) Veterans' Insurance Act whereunder, except in certain circumstances, veterans on discharge may purchase life insurance from the Dominion government at favourable rates without medical examination up to a maximum amount of \$10,000. The insurance may be purchased over certain specified terms, up to 20 years, or so as to be payable to the age of 65 or to the age of 85 years. The re-establishment credit, hereinafter referred to, may be used to purchase this insurance.

4. The more important benefits in which the chartered accountancy student will probably be most interested are the following:

(a) Rehabilitation grant: Consisting of one month's pay and allowances which are payable immediately on discharge.

(b) Clothing allowance: Amounting to \$100, payable to commissioned officers and all other ranks.

(c) War service gratuity: This is a straight cash grant payable in monthly instalments starting one month after discharge. Each instalment will not exceed the amount of one month's pay and allowances at the time of discharge. The war service gratuity is comprised of the following two parts: (1) Basic gratuity of \$7.50 for each 30 days' service in the western hemisphere and \$15 for each 30 days' service overseas (including Greenland, Iceland and the Aleutian Islands). (2) Supplementary gratuity of 7 days' pay and allowances (at rate immediately preceding discharge) for every 6 months of service overseas as defined above.

(d) Post-War Re-establishment Order (P.C. 5210) effective August 1, 1944: The benefits available to registered students-in-accounts under this order consist of the payment of (1) a maintenance grant or allowance and (2) tuition costs and examination fees. If, in the opinion of the Department of Veterans' Affairs, the discharged person makes satisfactory progress in his training and also educationally, these benefits will extend for as many months as the student served in the forces, and they are not subject to the payment of income tax. Application must be made within twelve months of discharge or of the cessation of hostilities.

The maintenance grant consists of a monthly payment of \$60 for a single man, with no dependents, and of \$80 for a married man. Additional allowances are provided for dependent children as follows: For the first child \$12 per month; for the second child \$12 per month; for the third child \$10 per month; for the fourth child and each sub-

sequent child \$8 per month. The payment of this grant is "subject to reduction by such amount on account of any wages, salary or other income such person may have received or be entitled to receive in respect of the period for which such grant is paid, as to the department seems right". A regulation was made recently that in the case of students of certain organized professions (including chartered accountancy) where the established training procedure involves practice with an approved member of a recognized professional organization, no deduction shall be made from the statutory training grant on account of payments up to \$40 per month paid to the trainee by the firm with which he is articulated and in which he is regularly employed. (Thus a student who is single and who, upon re-employment, receives \$40 per month as salary from his employer would be entitled to a maintenance grant of \$60 per month from the department, and neither salary nor grant would be taxable; if he receives \$75 per month from his employer, his maintenance grant from the department would be \$25 per month (i.e., \$60 less excess of salary over \$40, being \$35). The salary would be taxable in excess of \$660 per annum and the maintenance grant of \$25.00 per month would be free of income tax).

The grant for payment of tuition costs and examination fees will be made upon application whether or not the discharged student is entitled to the maintenance grant.

(e) Re-establishment Credit: This benefit is primarily for those who do not choose to avail themselves of what would appear to be the somewhat more extensive benefits available in the form of educational and maintenance grants as described above, or those provided under the Veterans' Land Act referred to previously. In any event, in so far as the educational and training or land benefits received by the veteran might prove cumulatively less than the re-establishment credit, the balance of the latter or any part thereof can be claimed for use for the restricted purposes described hereunder any time within ten years of January 1, 1945, or after the date of discharge, whichever is the later.

The re-establishment credit which is available under the provisions of the War Service Grants Act is equal in amount to the "basic gratuity" described above as entering into the computation of the war service gratuity, which latter is paid in cash, as already stated. In other words this credit is equal to \$7.50 per month for service in Canada plus \$15 per month for service overseas.

The re-establishment credit is available for certain stated purposes including: (1) The acquisition of a home. (2) The repair or modernization of his home, if owned by the veteran. (3) The purchase of furniture and household equipment up to two-thirds of the cost. (4) The purchase of equipment for his profession or business. (5) The purchase of a business, up to two-thirds of the equity fund required. (6) The payment of premiums under any insurance scheme established by the government. (7) The purchase of special equipment required for his educational or vocational training. (8) Any other purpose authorized by the government.

The following are provided as examples showing computation of amounts payable under the War Service Grants Act.

REPORT ON REHABILITATION

SAMPLE AMOUNTS PAYABLE FOR REHABILITATION

	1 Year Canada	3 Years Canada	1 Year Canada, 2 Years Overseas	1 Year Canada, 4 Years Overseas
Private (married, 2 children):				
Rehabilitation grant	\$108.12	\$108.12	\$ 108.12	\$ 108.12
Clothing allowance	100.00	100.00	100.00	100.00
Basic gratuity	90.00	270.00	450.00	810.00
Supplementary gratuity...			135.90	271.80
	<u>\$298.12</u>	<u>\$478.12</u>	<u>\$ 794.02</u>	<u>\$1,289.92</u>
*Re-establishment credit . 90.00		270.00	450.00	810.00
Total	<u>\$388.12</u>	<u>\$748.12</u>	<u>\$1,244.02</u>	<u>\$2,099.92</u>
Sergeant (single):				
Rehabilitation grant	\$ 66.00	\$ 66.00	\$ 66.00	\$ 66.00
Clothing allowance	100.00	100.00	100.00	100.00
Basic gratuity	90.00	270.00	450.00	810.00
Supplementary gratuity ..			96.60	193.20
	<u>\$256.00</u>	<u>\$436.00</u>	<u>\$ 712.60</u>	<u>\$1,169.20</u>
*Re-establishment credit . 90.00		270.00	450.00	810.00
Total	<u>\$346.00</u>	<u>\$706.00</u>	<u>\$1,162.60</u>	<u>\$1,979.20</u>
Lieutenant (married, 2 children):				
Rehabilitation grant	\$223.12	\$223.12	\$ 223.12	\$ 223.12
Clothing allowance	100.00	100.00	100.00	100.00
Basic gratuity	90.00	270.00	450.00	810.00
Supplementary gratuity ..			255.84	511.68
	<u>\$413.12</u>	<u>\$593.12</u>	<u>\$1,028.96</u>	<u>\$1,644.80</u>
*Re-establishment credit . 90.00		270.00	450.00	810.00
Total	<u>\$503.12</u>	<u>\$863.12</u>	<u>\$1,478.96</u>	<u>\$2,454.80</u>

*In lieu of educational and maintenance grants under Post-War Re-establishment Order or benefits under Veterans' Land Act.

The following examples are provided to illustrate that under certain circumstances the estimated benefits available to a chartered accountancy student in the form of maintenance grants and educational costs may prove substantially more than the re-establishment credit provided under the War Service Grants Act. As previously stated, if the re-establishment credit proved to be the larger, the balance thereof would be available for the purposes specified.

THE CANADIAN CHARTERED ACCOUNTANT

EXAMPLE NO. 1

Single man with three years' service, one in Canada and two overseas, having the rank of sergeant on discharge

Year after discharge	Monthly Salary Received	Maintenance Monthly	Grant Annual	Tuition Fees	Exam. Fees	Total Grant
1st	\$60.00	\$40.00	\$480.00	\$70.00	\$15.00	
2nd	70.00	30.00	360.00	70.00		
3rd	80.00	20.00	240.00	70.00	15.00	
			<u>\$1,080.00</u>	<u>\$210.00</u>	<u>\$30.00</u>	<u>\$1,320.00</u>

Re-establishment credit (as alternative)

Service in Canada— $\$7.50 \times 12 = \90.00

Service overseas— $\$15.00 \times 24 = 360.00$

\$450.00

Note:

As shown above, this veteran as a student-in-accounts would also receive cash gratuities, grants and allowances in the amount of\$ 712.60

Total benefits through taking maintenance and educational grants 2,032.60

EXAMPLE NO. 2

Married man with two children, five years' service of which one was in Canada and four overseas, having the rank of lieutenant on discharge:

Year after discharge	Monthly Salary Received	Maintenance Monthly	Grant Annual	Tuition Fees	Exam. Fees	Total Grant
1st	\$75	\$69	\$828	\$70	\$15	
2nd	85	59	708	70		
3rd	100	44	528	70	15	
4th	115	29	348	70		
5th	135	9	108	70	25	
			<u>\$2,520</u>	<u>\$350</u>	<u>\$55</u>	<u>\$2,925.00</u>

Re-establishment credit (as alternative)

Service in Canada $\$7.50 \times 12 = \90.00

Service overseas $15.00 \times 48 = 720.00$

\$810.00

Note:

As shown above, this veteran as a student-in-accounts would also receive cash gratuities, grants and allowances in the amount of 1,644.80

Total benefits through taking maintenance and educational grants \$4,569.80

**Summary of Training Provisions of the
Post-Discharge Re-establishment Order, P.C. 5210
Department of Veterans' Affairs**

November 1, 1944

UNIVERSITY TRAINING

I. Under-Graduate—(Para. 8, P.C. 5210): The minister has authority to approve training, including maintenance grant and fees—together with appropriate allowances for dependents—for any discharged person who has the aptitude and inclination and who: (a) has been regularly admitted to a university before his discharge and resumes within one year and three months after discharge a course, academic or professional, interrupted by his service, or (b) becomes regularly admitted to a university and commences any such course within one year and three months after his discharge, or (c) because of ill health or because his admission to the university has been conditional upon his fulfilling some additional matriculation requirements or for any other good reason shown to the satisfaction of the department, delays resumption or commencement of such course beyond the aforementioned periods.

The period of assistance in university training is governed by the length of service. Where progress is satisfactory the assistance may be continued for as many months, in university, as the man served in the forces. If the student's progress and attainments in his course are such that the department deems it in his interest and in the public interest, the payment of the grant may be extended beyond the period of service to permit the man to complete his course.

However, the grant shall not be continued to any such person who fails in more than two classes or subjects in any academic year, nor to any such person who having failed in either one or two classes or subjects also fails in either or both supplementary examinations next offered by the university in such classes or subjects.

NOTE: "Attainments" means unconditioned standing in the top 25% (first quartile) of his class on the final examinations on the full work of the year next preceding the year in which his period of entitlement expires.

II. Post-Graduate—(Para. 9, P.C. 5210): In case any

discharged person (a) has entered upon a post-graduate course, either academic or professional, in a university before enlistment, or was about to do so at the time of his enlistment, or, having completed his under-graduate course in a university after his discharge, enters upon a post-graduate course as aforesaid, and (b) resumes or commences such post-graduate course within (i) one year from his discharge, or (ii) one year from the commencement, next following his discharge, of such course in such university, if his discharge precedes such commencement by not more than three months, or (iii) in the case of a discharged person who completes his under-graduate course after his discharge, as soon as may be after such completion, if the department, having considered such person's attainments and his course, deems it in the public interest that he should continue such course, the department may, subject to the provisions of this order, authorize the payment to such person of a maintenance grant and fees for as many months as he served. The assistance may be extended if the progress and achievements are so outstanding that it is in the public interest that the grant should be continued.

A candidate with a first degree, B.A., B.Sc., M.D., D.D.S., etc., who applies for further training, academic or professional, in his special field, shall be considered under paragraph 9, post-graduate training.

Where a first degree is required for admission to a professional training school, or faculty, a candidate for such professional training shall be considered under paragraph 8, under-graduate training.

VOCATIONAL, TECHNICAL, OR OTHER EDUCATIONAL TRAINING—
PARA. 6, P.C. 5210

The department has authority to approve training, including maintenance grant and fees—together with appropriate allowances for dependents—to any discharged person, provided he has the aptitude and inclination, where such person is pursuing vocational, technical or other educational training; where the department approves such training as being training which will fit him or keep him fit for employment or re-employment or will enable him to obtain better or more suitable employment; and where he makes progress in such training to the satisfaction of the department.

REPORT ON REHABILITATION

SCHEDULE OF MONTHLY RATES—(Paragraph 10)

	Single no Dependents	Man and Wife	Children					
			One	Two	Three	Four	Five	Six
PART 1	Out-of-Work Benefits, Awaiting Returns, and Temporary Incapacitation—Paragraphs 5 and 7							
	\$50.00	\$70.00	\$82.00	\$94.00	\$104.00	\$112.00	\$120.00	\$128.00
PART 2	Vocational and Educational Training—Non-Pensioners—Paragraphs, 6, 8 and 9							
	60.00-	80.00	92.00	104.00	114.00	122.00	130.00	138.00
PART 3	Vocational and Educational Training—Pensioners (Inclusive of pension)							
Percentage of Pensionable Disability								
5	61.50	81.50	93.50	105.50	115.50	123.50	131.50	139.50
10	63.00	83.00	95.00	107.00	117.00	125.00	133.00	141.00
15	64.50	84.50	96.50	108.50	118.50	126.50	134.50	142.50
20	66.00	86.00	98.00	110.00	120.00	128.00	136.00	144.00
25	67.50	87.50	99.50	111.50	121.50	129.50	137.50	145.50
30	69.00	89.00	101.00	113.00	123.00	131.00	139.00	147.00
35	70.50	90.50	102.50	114.50	124.50	132.50	140.50	148.50
40	72.00	92.00	104.00	116.00	126.00	134.00	142.00	150.00
45	73.50	93.50	105.50	117.50	127.50	135.50	143.50	151.50
50	75.00	95.00	107.00	119.00	129.00	137.00	145.00	153.00
55	76.50	96.50	108.50	120.50	130.50	138.50	146.50	154.50
60	78.00	98.00	110.00	122.00	132.00	140.00	148.00	156.00
65	79.50	99.50	111.50	123.50	133.50	141.50	149.50	157.50
70	81.00	101.00	113.00	125.00	135.00	143.00	151.00	159.00
75	82.50	102.50	114.50	126.50	136.50	144.50	152.50	160.50
80	84.00	104.00	116.00	128.00	138.00	146.00	154.00	162.00
85	85.25	105.25	117.25	129.25	139.25	147.25	155.25	163.25
90	86.50	106.50	118.50	130.50	140.50	148.50	156.50	164.50
95	87.75	107.75	119.75	131.75	141.75	149.75	157.75	165.75
100	89.00	109.00	121.00	133.00	143.00	151.00	159.00	167.00
Additional amount for person in lieu of wife—\$20.00 per month (applicable to parts 1, 2 & 3).								
Additional amount for dependent parent—\$15.00 per month (applicable to parts 1, 2 & 3).								

"Other educational training" provides for (1) resumption of education leading to high school graduation or matriculation, where such training is pre-requisite to employment or professional training; (2) "refresher" or "brush-up" courses in the professions.

NOTE: The period of training is governed by the length of service. For most types of training the maximum will be twelve months. In instances where the required training exceeds twelve months grants may be continued for a period not exceeding the length of service. In no case shall grants be paid beyond the period of service except in the case of disability pensioner.

MAINTENANCE GRANTS

Where the discharged person is not in receipt of a pension, the rate of payment of grant hereunder shall be in accordance with part 2 of the attached schedule, and, where the discharged person is in receipt of a pension, the rate of payment of grant hereunder shall be in an amount which, when added to the discharged person's pension, inclusive of additional pension, equals the rate set forth in part 3 of the said schedule applicable to a discharged person of his status, and in either case such grant shall be subject to reduction by such amount on account of any wages, salary or other income such person may have received or be entitled to receive in respect of the period for which such grant is paid, as to the department seems right.

"POSTPONED" PENSIONS OF R.C.M.P.

Income taxes on "postponed" pensions of R.C.M.P. personnel are dealt with by an order in council (P.C. 23/1751) approving a Treasury Board recommendation dated March 16, 1945, reading as follows:

The board recommend, under the War Measures Act, that in the case of ex-members of the Royal Canadian Mounted Police (a) who left the force during the present war at the expiration of their engagements and while being eligible to be recommended for pension, and (b) who were not so recommended at that time, for the reason that it was considered that they were in good health and could have served in the force for a longer period, and (c) who consequently had their pensions "postponed", be granted the privilege of having such "postponed" pensions taxed when granted, at the income tax rates applicable or in force in each of the respective calendar years for which the pension is drawn and on the yearly amounts of such pension for each calendar year, as if the pensions in question had been granted from the day following their discharge from the Royal Canadian Mounted Police.

Unemployment Insurance in Canada

By Neil R. MacLean, B.A., C.A.

Ottawa, Canada

IN 1935 the parliament of Canada enacted legislation embodying a plan of insurance against unemployment, but this legislation was challenged on the grounds that under the provisions of the British North America Act, unemployment insurance came within the jurisdiction of the provinces. On reference to the Supreme Court of Canada, the measure was declared ultra vires of the federal parliament and this decision was upheld by the Privy Council in London. Subsequently, consent was given by each province to a federal plan of unemployment insurance and an amendment to the British North America Act was obtained. The plan was then submitted to parliament as the Unemployment Insurance Act, 1940, and became law on August 7, 1940. The act is the first piece of social legislation administered by the Dominion government and is, therefore, of unusual interest to all Canadians.

The principal function of the act is to provide an employment service. The fundamental objective of this service is to find suitable work for employable persons who desire employment. To the extent that there is failure to place insured persons involuntarily unemployed, the act provides aid by way of insurance benefits.

The insurance provisions of the act apply to all persons employed in Canada under a contract of service, unless their employment is specifically excepted.

The intention of the act is that the scheme be a co-operative enterprise between employers and employees under government supervision and to this end, it provides for administration by a commission of three appointed by the Governor in Council. One commissioner, other than the chief commissioner, is appointed after consultation with organizations representative of workers and the other after consultation with organizations representative of employers. As the operations of the commission are largely local in character, the pattern of its services is set in local offices of which there are currently 216 in operation.

Insurance principles and techniques are applied to the uncertainties of employment by the use of an integrated

scheme of contributions and benefits based on earning classes. Contributions by employers and employees are, in the aggregate, approximately equal. The Dominion government contributes an amount equal to one-fifth of the amount contributed by employers and employees, and, in addition, pays the expenses of administration. Moneys received from employers and employees and from the Dominion (as its one-fifth share) are credited to a special account in the consolidated revenue fund called the unemployment insurance fund. The only payments which may be made a charge to the fund are those required to pay claims for insurance benefit and refunds of contributions as provided by the act. Funds surplus to current requirements may be invested in obligations of, or guaranteed by, the government of Canada, and investments so made may be sold or exchanged for other like securities. All interest received on investments is credited to the fund.

Unemployment Insurance Contributions

Contributions by employers and employees are remitted by some 150,000 employers on behalf of approximately 3,000,000 insured persons. Three methods of payment are permitted:

1. By purchase of unemployment insurance stamps. These are sold by post offices upon presentation of a completed requisition by a licensed employer. A complete stamp represents the combined employer-employee contribution for a working week, but perforations permit the stamp to be divided into six parts, each part representing one day's contribution. Imprinted on each part is the amount of the employee's contribution. For example, a class 6 stamp valued at 57c represents a weekly contribution by the employer and employee of 27c and 30c respectively and each one-sixth part is imprinted with a boxed "5" indicating the amount of the employee's contribution. The significance of the apportionment between employer and employee contributions lies in the fact that the benefit rights of an insured person are determined on the basis of the employee's contribution only.

2. By purchase of a credit recorded on a metering machine, the control of which is vested in the post office department. The procedure is for a registered user to requisition a credit, whereupon his meter is adjusted by the post office so that it will make impressions up to the value of

the credit purchased. The impression shows the number of the meter, the period covered, and the amount of the employer-employee contributions. It does not show the contribution class nor the employee's share; these are interpolated by the commission in the course of the bookkeeping process.

3. By an arrangement with the commission which permits settlement of aggregate contributions by bulk payment. This method of payment is not approved, unless the commission is satisfied that the employer has a good financial rating, suitable bookkeeping equipment, and a small turnover of personnel. Currently, there are about 200 employers operating under the bulk payment method, and their employees number about one quarter of the total insured population.

For an employer with only a small payroll, the stamp method provides a simple means of making and recording contributions. Employers with larger staffs find the metering method desirable. The bulk payment method was devised primarily to accommodate employers with large payrolls, covering five hundred or more employees.

The accounting for revenues arising from contributions by employers and employees includes the general financial accounting at head office, Ottawa, and the maintenance of individual employee ledger accounts at the regional offices.

At head office an inventory record of unemployment insurance stamps is set up from invoices submitted by the engraver. Upon advice from the engraver of stamps transferred to the post office department, the engraver's account is credited and a post office inventory account is debited. Transactions in both accounts are recorded by money values and by numbers of stamps for each class. The post office department assumes responsibility for stamps received from the engraver and maintains its own inventory records, reports of sales, financial records, etc.

Each month the post office department transfers to the unemployment insurance fund, the value of stamps and meter impressions sold by its offices during the previous month. The portion of the remittance representing the value of stamps sold is recorded as a credit to the post office stamp inventory account, and periodically the balance in

this account is reconciled with the physical inventory of stamps on hand in the post office department.

Remittances by bulk payers are forwarded to head office where they are deposited daily to the credit of the Receiver General in the Bank of Canada. Payments are required to be remitted prior to the 15th day of each month for the estimated employer and employee contributions for the month in which the remittance is made, and the adjustment between the estimated and actual combined contributions for the previous month. Accompanying each remittance is a monthly statement showing the actual and estimated amounts which comprise the payment and details of actual contributions by classes and values in accordance with the scale of contribution rates. Summary figures on the remittance statement are posted in a "bulk payers ledger", which contains an account for each employer and a controlling account posted from the cash and synoptic registers.

As the benefit rights of an insured person are founded on his contribution history, it is also necessary that contributions for each employee be recorded separately. Contributions paid by an employer on behalf of his employees are recorded by the insertion of stamps—adhesive or metered—in an insurance book, or by entries on individual contribution statements when the bulk payment method is used.

Each book and contribution statement is identified with the name and insurance number of the employee for whom the contributions are made. The insurance number assigned to a person entering insurable employment for the first time has an alphabetical prefix to identify the district in which the local office completing the registration is located. This same number is retained by the insured during the lifetime of his employment in the field of insurable employment.

The insurance book makes provision for daily contributions during the fiscal year ending March 31, and employers are required to record the contributions for each pay period in the space provided therefor. For employment of less than a full week, one-sixth of the weekly contribution is required for each day on which work is done. The rate of contribution is based on gross earnings. The employer may

deduct the insured person's share of the total contribution from the latter's earnings, except where such earnings are less than an average of ninety cents a day; where he is under 16 years of age; or does not receive pecuniary remuneration. In all these cases the employer is required to pay the insured person's share of the contribution as well as his own.

At March 31, the end of the insurance year, employers using the stamp and meter methods of payment are required to exchange the insurance books in their possession for new ones. The necessity of confining the exchange of some 2,000,000 books to a short period which will permit employers to continue the stamping of books with a minimum of interruption creates a considerable problem for the commission because, in addition to the work of handling, it is necessary to transcribe each employee's name and insurance number before the new book is forwarded to the employer. At the time the books are renewed, employers using the bulk method of payment forward their contribution statements and return the insurance books for employees who, at the time of their engagement, were in possession of an insurance book.

Insurance books and contribution statements are returned by employers to the local offices. There they are sorted by alphabetical prefix and forwarded to nine regional points, located at Moncton, Montreal, Toronto, London, North Bay, Winnipeg, Saskatoon, Edmonton and Vancouver. At the regional offices the insurance books are sorted into numerical sequence and forwarded to the "book processing" section. In the processing operation, the employee's contributions recorded in the insurance book are posted to a contribution ledger card, showing for each week the number of days for which contributions have been paid. Where an employee's contributions are all recorded on a bulk payment contribution statement, the statement serves as the contribution ledger card.

Contribution ledger cards are prepared by the use of sixty thirteen-bank bookkeeping machines with a split keyboard which permits registration of insurance number, dates and cumulative totals of days and amounts to the half cent. The paper used is a 4 x 7 lightweight stock in fan-fold form. Names and insurance number prefixes are typed

as a separate operation in a standard typewriter equipped with a registrator platen. An efficient operator can process up to about 300 books per day, but many factors contribute to a lower daily average and, consequently, the work of processing usually extends over a period of ten months.

As processing continues, the completed ledger cards are verified as to total days and amount by the use of an eight-bank adding machine with a split keyboard. As a final operation the contribution ledger cards and bulk payment contribution statements are sorted into the files which contain the contribution histories of previous years.

Processed insurance books will be retained in fire-proof storage for five years, but, as this is a costly arrangement, the commission is experimenting with a "recordaked" print of the book. If this proves successful, the books will be destroyed systematically. As a further safeguard against loss by fire or other destruction, a recordak film is made of the contribution histories and other records.

Benefit Rights

Unemployment insurance benefit is payable as a right to any insured person who fulfils the prescribed conditions. There is no upper age limit, nor does the receipt of a pension, or income other than from employment affect entitlement to benefit.

Claims for insurance benefit (including registration for employment) are filed at the local offices, either by personal call or, if the applicant lives some distance from the office, by mail. Details of the contributions recorded in the current insurance book are noted at the time the claim is made. When the initial application and related documents are complete, the local office forwards them to the regional office where the contribution history of previous years is added and the claim adjudicated.

Adjudicating is done by insurance officers specially designated for the purpose. If a claim is disallowed by the insurance officer, the applicant may appeal to a court of referees. Normally this consists of three persons, one member selected from a panel of employers' representatives, one member selected from a panel representative of insured persons, and a chairman appointed by the Governor in Council. An appeal may be made from a decision of a

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court of referees to the umpire, a superior court judge; his decision is final.

The daily rate of payment of benefit is thirty-four times the average daily contribution made by the employee in the previous two years, or forty times if he proves dependency status. The duration of the period for which benefits are paid is determined by what is known as the ratio rule; that is, benefit for one day for every five days' contributions paid by him in the preceding five years, less one day for every three days' benefit paid to him in the preceding three years.

At first glance, these formulas may seem complicated, but an illustration will clarify them. Assume a single insured person is "laid off" from his employment on December 4, 1946. (It is necessary to illustrate with a future date because a five year period has not elapsed since July 1, 1941, the time at which contributions commenced under the act.) On December 5 he visits the local employment office and, on learning there is no suitable employment to which he can be referred, he completes an application for insurance benefit. His current insurance book shows employee contributions for 212 days valued at \$11.20. At the regional office, his total contributions and previous claim history are summarized and benefit rights are computed as shown.

ILLUSTRATION

Contributions:	Number of Days	Amount
Current book:		
April 1 to December 4, 1946	212	\$11.20
1945-46 ledger card	306	16.14
1944-45 ledger card:		
December 5, 1944, to March 31, 1945 ..	96	4.02
	614 (A)	\$31.36 (B)
April 1 to December 4, 1944	200	
1943-44 ledger card	265	
1942-43 ledger card	312	
1941-42 ledger card:		
December 5, 1941, to March 31, 1942 ..	89	
	1480 (C)	
Benefit days taken:		
Number of benefit days paid during the period from December 5, 1943, to De- cember 4, 1946	36 (D)	

Daily rate computed as follows:

$$(B) \$31.36 \times 34 = \$1.74$$

(A) 614

Benefit days available computed as follows:

1/5 of contribution days (C)	296
Less: 1/3 of benefit days taken (D)	12
Benefit days available	<u>284</u>

Providing he continues to fulfil certain prescribed conditions, this claimant would be entitled to be paid benefits for a period of 284 days at a rate of \$1.74 per day, or \$10.44 per week, commencing December 15. (Under the act benefit is not payable for the first nine days of unemployment.)

Payment of Unemployment Insurance Benefits

The original payment plan, still used extensively, made it necessary for the local office to forward the claimant's weekly requisition to the regional office where a cheque was drawn on the Receiver General and forwarded to the local office in time to be handed to the claimant on his next reporting day, one week hence. This method of payment worked well, but it was felt by the commission that pay procedures should be developed which would permit immediate settlement for all unemployed days proved by the claimant at the time of his weekly call. To implement this policy, the pay process is now being transferred gradually from the regional offices to the local offices. In local offices where these arrangements are already in effect, proved days of unemployment are paid for in cash before the claimant leaves the office.

When benefit payments were commenced, in February, 1942, cheques were prepared on machine tabulators but these were withdrawn for war work and other equipment had to be obtained. To meet this need, an electromatic writing machine with a dual platen was provided. This device permits 3½" spacing for the writing of cheques and 1/3" spacing for the cheque listings. Continuous forms with interleaved carbons are used. The cheque with two copies is fed into the machine on the upper platen and the listing with two copies is carried on the lower platen. Disposition of the forms is as follows:

Cheques: Original—forwarded to local office for trans-

mission to claimant. First copy, "Information for General Purposes", retained at the regional office. Second copy, "Authorization for Continuing Payment", forwarded to local office for use as the requisition for next week's cheque.

Cheque listings: First copy—retained by issuing office. Second copy—forwarded to chief treasury officer, U.I.C., Ottawa, where it serves as the medium of entry for posting to the disbursement register. Third copy—forwarded to Finance Department where it serves (i) as the medium for entries in the records of the Chief Dominion bookkeeper and (ii) as a cheque register against which to mark off cashed cheques returned by the banks. The first copy of the cheque, captioned "Information for General Purposes", is faced with carbons which make a positive impression on the front of the form and a negative impression on the back. The negative side of this copy serves as the medium of entry for posting to the benefit ledger card which summarizes the claim history of the individual. Postings to the benefit ledger cards are made with the use of a transfer posting machine which transfers the negative impressions by means of a hectograph carbon.

Local offices which pay by cash are provided with an accountable advance to be operated on an imprest basis. The general procedure is for the interviewer to complete in duplicate a "Requisition and Receipt for Benefit Payment". The claimant signs the forms and takes the original to the cash wicket where he is paid the amount shown. At the end of each day, the cashier summarizes his paid requisitions and reports the amount to a superior officer, who verifies it with a predetermined total obtained by the interviewer from the duplicate requisitions. Paid requisitions are then forwarded to the regional office where reimbursement is effected by means of a cheque drawn on the Receiver General. At the regional office the amounts on the requisitions are posted to the benefit ledger cards by the use of an accounting machine.

Local offices which pay by cash are also supplied with benefit warrants for use in settling postal claims. The original of the warrant is forwarded to the claimant who may negotiate it without charge at any chartered bank in Canada. The duplicate warrant, captioned "Advice of Warrant Issued", is forwarded to the regional office where it is

transfer-posted to the benefit ledger card in the same way as a payment made by cheque. The copy then forms the basis of a journal entry in the books of account, debiting benefits paid account in the operating section and crediting warrants outstanding in the liability section. As a final operation, the form is placed in an outstanding file to be withdrawn when the original of the warrant is presented for payment by the clearing bank. The third copy of the warrant, captioned "Authorization for Benefit", is retained in the local office to serve as the requisition for next week's warrant.

The Canadian Bankers Association has designated a clearing bank in each region for the purpose of redeeming warrants paid by member banks. At each of these clearing banks a deposit is maintained in the name of the comptroller of the treasury and paid warrants are charged to the account daily. The warrants are then sent by messenger to the regional office where a cheque is drawn on the Receiver General for their total value. Deposit of the cheque to the credit of the comptroller's account in the clearing bank completes the bank transactions. At the regional office the corresponding duplicate warrants are drawn from the file of warrants outstanding, and after comparison, both copies are filed. The cheque register entry for the cheque issued to the bank is, of course, posted as a debit to the warrants outstanding account referred to previously. The balance of the warrants outstanding account is verified monthly by summarizing the duplicate warrants in the outstanding file.

Analyses of benefit payments for accounting and statistical purposes are prepared in the regional offices by the use of an accounting machine. This machine provides the required classifications by columnar analysis and in the same operation posts the benefit ledger cards where the cash method of payment is employed.

References have been made to the mechanics of posting the benefit ledger cards. An interesting feature of the card itself is that it is punched to provide for selective sorting. A 5 x 8 card of 40 pound paper stock is punched with holes on two sides. Against each hole in the width of the card there is a printed indication for each month of the year.

Indications opposite holes on the length of the card are as follows:

0000	0000	0000	0000	0000	0000
7421	7421	7421	7421	7421	7421
Δ Δ	Δ Δ	Δ	ΔΔ	Δ	Δ Δ

Thus, if it is desired to indicate that the benefit year expires in March and the insurance number is 954618, the indications to be ticked would be the M on the side of the card and the digits ticked in the illustration above. After the information is ticked on the cards, an operator prepares it for sorting purposes by slotting (i.e., cutting away the edge of the card) opposite the appropriate holes. Cards slotted in this manner can be quickly sorted into the required order, and cards bearing the same code (e.g., by months) can be extracted by running a blunt nosed needle through each hole in turn, raising the unslotted cards by means of the needle and allowing the slotted cards to drop out of the pack. Only the required cards drop out of the pack, the remainder being lifted away on the needle. There is also a visible check on sorting because a missorted card can be seen by the break it causes in the channels created by the slots in the edges of the cards.

Statistics

A comprehensive system of employment and unemployment statistics is an administrative necessity, but it is also a social necessity, because the issues of employment and unemployment touch every citizen directly or indirectly. To obtain these statistics at a minimum of cost, statistical processes are integrated so that the statistics are produced as by-products of the administrative process.

Initial registrations completed at the time a person enters insurable employment, and annual registrations completed as part of the book renewal process, are used as the basis of a study of the number and characteristics of the body of persons who make up the insured population (the corpus). Certain monthly tabulations set forth changes in the corpus and activities respecting benefits. Annual reviews are made of the benefit phases of the year's work, showing the characteristics of the beneficiaries as compared with the corpus, the duration of benefits, geographical areas, age, sex, etc.

Armed Service

An important feature of the government's policy for the re-establishment of persons discharged from the armed forces is the provision that any discharged person who completes fifteen weeks in insurable employment within any period of twelve months shall be deemed to have been in insurable employment for a period equal to his army service after June 30, 1941. The intent of course is to place the veteran in just as advantageous a position under the act as his civilian fellow-worker.

The combined employer-employee contributions for the period of armed service are paid into the unemployment insurance fund by the government out of funds appropriated for the purpose. Although contributions are ordinarily based on the earning class of the individual, the rate of contribution for the period of armed service is the average of the contributions for the fifteen week qualifying period after discharge. In practice, the procedure is that, as soon as the Unemployment Insurance Commission ascertains that a discharged person has completed the qualifying period, the Department of Veterans' Affairs is billed for the amount of the combined contributions for the period of armed service. When settlement is received, a contribution ledger card is prepared and sorted into the regular contribution history files.

The benefit rights of the discharged person are the same as for any insured person.

The Unemployment Insurance Fund

As indicated previously, funds surplus to current requirements are invested in Dominion of Canada bonds. The Bank of Canada is the statutory fiscal agent, but it carries out transactions only on the authorization of an investment committee consisting of: (i) one member nominated by the Minister of Labour, (ii) one member nominated by the Minister of Finance, and (iii) the governor of the Bank of Canada. Securities acquired are held by the Bank of Canada for the Unemployment Insurance Commission and are subject to inspection by the Auditor General of Canada.

Purchases and sales of securities are recorded in an investment ledger which includes a control account and individual accounts for each maturity. The straight line method of amortization is used and amortization adjust-

UNEMPLOYMENT INSURANCE IN CANADA

ments are effected at interest dates only. At March 31, the end of the Dominion fiscal year, accrued interest and amortization is brought on the general books of account from working paper summaries.

The financial records of the fund are maintained by the Chief Treasury Officer, Unemployment Insurance Commission, Ottawa. A regular form of cash receipts register is used to record cash received at head office and through the regional offices. Remittances forwarded by the regional offices are posted from the duplicate copy of the regional cash receipts register. Cheque issues are recorded in a handwritten register from the machine cheque listings of cheques issued at head office and at the regional offices.

UNEMPLOYMENT INSURANCE FUND

Balance Sheet as at December 31, 1944

Assets			
Balance on deposit with Receiver General	\$	890,820.91	
Cash on deposit in chartered banks for redemption of warrant settlements		5,100.00	
Advances to local offices for payment of benefits by cash		62,000.00	
Accounts receivable:			
Post office department re December sales	\$	3,794,498.85	
Dominion contribution (20%) re:			
Amount due from			
post office	\$758,899.77		
Sundry receipts	1,238.17	760,137.94	4,554,636.79
Investment securities:			
Dominion of Canada bonds at amortized cost (par value \$235,416,000.00)	242,983,719.04		
Interest accrued but not due	1,530,251.26	244,513,970.30	
		<u>\$250,026,528.00</u>	
Liabilities			
Warrant settlements outstanding	\$	5,855.78	
Contributions refundable to unlocated persons		352.62	
Balance available for payment of benefits:			
Balance at December 31, 1943 ..	\$170,512,133.30		
Net revenue for year ended December 31, 1944	79,508,186.30	250,020,319.60	
		<u>\$250,026,528.00</u>	

Amortization adjustments and other transactions within the fund are recorded in a handwritten journal register.

As a final operation, entries in the above records are punched on Hollerith cards and tabulated monthly. Benefit payments are punched to show the local office of origin, but for other transactions, totals only are punched. From the tabulation, a balance sheet, and a revenue and expenditure statement is prepared monthly.

In view of the widespread interest in the standing of the unemployment insurance fund, the balance sheet at December 31, 1944, is submitted as an exhibit to this article. It shows that at December 31, 1944, there was \$250,020,319.60 available for payment of benefits.

Benefits paid from the inception of the scheme to December 31, 1944, amounted to \$4,544,582.94.

ONTARIO MINING ROYALTIES

The Ontario Mining Association has advised its members of a change made in the due date of royalties, payable under the Ontario Mining Tax Act, from October 1 to March 31 each year. The association points out that it had been consulted regarding the change, which it outlines as follows:

What we are required to do is make 1945 and future year payments six months ahead of the previously established date. This brings the provincial practice more nearly in line with the Dominion.

What the mining industry gains is:

First, suggested adjustment in the basis of arriving at the milling allowance to gold mines will be deferred until full data is available, and possibly until consideration of the Dominion government can be obtained to the whole mining tax problem per the recommendations of the Royal Ontario Mining Commission.

Second, the cancellation of the equivalent section of the Assessment Act to section 5(j) of the Mining Tax Act will be similarly deferred, thus ensuring the continuing interest of the mining municipalities in a revised method of taxation.

Third, outstanding claims created as a result of the mines agreeing in 1943 to defer the deduction from taxable income of speeded-up portion of Dominion income taxes paid in the income year, will be settled in full either by now allowing such balances as deductions, or by refunding in those cases where no taxable income this year is found.

The directors of the association at their meeting on February 16th, had this information and proposal all before them, with the result that the following resolution was unanimously adopted: "Resolved that the following proposal of the provincial government after study was considered to be in the best interests of the industry and that the association members should be so advised."

Residence in Canada

WHAT constitutes residence in Canada for the purposes of income tax was the main question in an Exchequer Court case, Thomson and the Minister of National Revenue, which was decided against the appellant in the judgment issued March 10, 1945, by president J. T. Thorson as follows:

"This is an appeal under the Income War Tax Act, R.S.C. 1927, chap. 97, from an assessment for the year 1940 and turns on the question whether the appellant was residing or ordinarily resident in Canada during such year.

"The appellant was born at Saint John, New Brunswick, in 1872. He lived there and carried on business as a steamship owner until 1918, when he retired and became interested in a public utility company until 1921. On his retirement he moved to Rothesay, a village near Saint John. In 1922 he had a dispute with the village tax authorities over personal property tax and decided to leave Canada. He announced his intention of giving up residence in Canada to the New Brunswick cabinet and to his friends and notified the Rothesay tax authorities.

"In 1923 he went to Bermuda, rented a house there, made an affidavit in which he says he declared that he had come to Bermuda to establish his home and domicile there and that he intended to stay there indefinitely, and obtained a passport for 10 years. He took out a new passport on December 8, 1933, from the British Consulate at Savannah, Georgia, in which he stated his domicile as St. Georges, Bermuda, which was renewed by the British Consulate at Baltimore until December 8, 1943. He took out a fresh passport from the same consulate on February 7, 1943. He made his arrangements for the rental of a house in Bermuda because he thought it necessary to do so to establish residence there, but, although he paid rent for 1 or 2 years, he never occupied the house or did anything with it. Apart from his short stay in 1923 to make the arrangements mentioned he spent only 6 days in Bermuda in 1926, 8 in 1928 and 6 in 1933, and has not been there at all since 1933. He never owned any property or had any assets or bank account there. He has, however, consistently, since 1923, described himself as a resident of Bermuda.

"The appellant appeared at the hearing and gave detailed particulars of his movements from January 1, 1925,

to December 31, 1941, compiled from his diaries, in which he recorded the temperatures and his golf scores. He stated that he roamed all over to play golf and this appears to be his main activity in life, together with an interest which he takes in improving at his own expense the golf courses over which he plays.

Paid Tax for 1923

"Between 1923 and 1932 the appellant spent only the following days in Canada; none in 1924, 101 in 1925, none in 1926, 8 in 1927, 2 in 1928, 15 in 1929, 64 in 1930 and 2 in 1931. The 2 days spent in 1928 were in connection with a visit made to Ottawa to collect some money from the custodian of alien enemy property and to settle an income tax account for the year 1923. He paid \$180.40 in full of this account on October 8, 1928, and on November 5, 1928, Mr. C. S. Walters, who was then commissioner of income tax, wrote to him at an address in Boston as follows: 'With reference to our conversation on the 25th of September last, the district inspector of income tax at Saint John has forwarded to this office the return which you have now filed for the year 1923, in respect of which you have paid the sum of \$180.40. This will advise that your liability under the Income War Tax Act up to and including the calendar year 1927 has been discharged. You will not become taxable again under the Income War Tax Act until (a) you again take up residence in Canada; (b) you sojourn in Canada for a period or periods amounting to 183 days during a calendar year; (c) you are employed in Canada; (d) you carry on business in Canada; or, (e) you derive income for services rendered in Canada. In any such case you would become liable to taxation in Canada, and would be required to again file a return for taxation purposes.'

"Up to this time the appellant had spent most of his time at Pinehurst in North Carolina, living in one rented house after another. In 1930, however, he built a house at Pinehurst, costing approximately \$90,000. He then moved his furniture to Pinehurst from Rothesay, having disposed of the residence there. The new house at Pinehurst was his chief place of abode in the United States, his wife and only son living there with him. He kept a man looking after

it the whole year, even when he was away playing golf somewhere else. The house was always open and available to him.

Summer Residence in Canada

"In 1932 the appellant spent 134 days at Saint Andrews, a summer resort not far from Saint John. He rented a house and brought his wife, son and grandson with him. His wife wanted to come there, having relatives and friends at Saint John. This was the reason, according to the appellant, why he established a summer place there. He paid \$700 per year for it and, although he was only a tenant, put in new bathrooms and other improvements. As he put it he was 'stuck with a house and had to make it comfortable'. He came back to the same rented house in 1933 and 1934, spending 138 days there in 1933 and 81 in 1934. In 1934, however, he built a house at East Riverside, a place near Rothesay, adjacent to the golf club, which cost him close to \$90,000, and bought about \$16,000 worth of furniture with which to furnish it. The house was a large one consisting of from 15 to 20 rooms. The appellant gave as his reason for building this house the fact that he had no desire to come to Canada himself, but his wife's relatives were in New Brunswick and she enjoyed 'sojourning' with them during the summer months. His wife's relatives and friends lived in Saint John and at Rothesay and it was her desire to be nearer to them than St. Andrews. Since then and up to 1942 the appellant spent his summers in this house with his wife and family together with his staff of servants. There the appellant spent 156 days in 1935, 138 in 1936, 169 in 1937, 145 in 1938, 166 in 1939, 159 in 1940 and 115 in 1941. He stated that after receiving the letter from Mr. Walters he thought that if he did not spend more than 183 days in Canada in any one year he was not liable for income tax. He placed the house in the name of a company which he incorporated as Property at East Riverside Limited, in which he, his wife and his son had one share each in trust, the balance being held by another company called Prospect Mining Company Limited, a company which he incorporated in Newfoundland, the shares of which were owned by himself, his wife and his son. The appellant paid for the house and furniture, paid the annual taxes on the property and paid for its annual maintenance.

He kept a housekeeper and his wife there each winter. The servant's quarters were open all the year round but the rest of the house was closed after he left in the fall until he came back the following summer.

"His routine of life was now established. After it was too cold to play golf at East Riverside he went south to his house at Pinehurst; then he frequently went to Florida, where he had a house at Belleair, but when it got too hot to play there he went back north to Pinehurst and then back to East Riverside. As he moved from place to place he took his family, his motor cars and his staff of servants with him.

"In 1940 the appellant entered Canada as a tourist from Bermuda although he came from Boston, and brought his automobiles with him under tourist permits for six months. He remained at his house at East Riverside with his wife and family as in previous years from May 8 to October 25, with the exception of two brief trips to Boston and one to Perth and then returned to Pinehurst as usual.

Tax Status in United States

"In the United States the appellant paid income tax as a non-resident from 1930 to 1940, but since then he has been forced to pay as a resident. He said that the United States authorities put a lien on everything he had and that he compromised with them because he had to do so. Since 1940 he has paid income tax in the United States on the full amount of his income, without exemption, but it took strong action on the part of the authorities to compel him to do so.

Canadian Assessment for 1940

"The appellant returned to East Riverside in 1941, but this time as a visitor from the sterling area. While he was there he received a letter from the acting inspector of income tax at Saint John, dated August 11, 1941, requesting him to make his income tax returns for 1940, showing his income from all sources, and advising him that consideration would be given to a portion of taxes paid in the United Kingdom and in the United States. He replied that as he understood the Canadian law he was not compelled to file any income tax statement as his domicile was in Bermuda

and that he was visiting Canada as a tourist. In consequence of his refusal to file any return an assessment amounting to \$21,122.00 tax and \$480.31 interest was levied against him for the year 1940, based upon an assumed income of \$50,000. The minister determined the amount of the tax to be paid under the authority of section 47 of the Income War Tax Act. From the assessment the appellant took an appeal to the minister in which he stated that he was a resident of Bermuda, his residence dating as far back as 1923 and that during 1940 he sojourned in Canada for 161 days. No objection was raised as to the amount of the assessment, the only contention being a denial of liability under section 9 or any other section of the act. The minister affirmed the assessment on the ground that the facts disclosed that the taxpayer was resident or ordinarily resident in Canada during the year 1940 and hence was subject to income tax as provided by paragraph (a) of section 9 of the act. After notice of dissatisfaction by the appellant and the reply of the minister, an appeal from the assessment was duly lodged in this court.

Terms of the Act

"The only question to be determined is whether the appellant in 1940 was 'residing or ordinarily resident in Canada during such year', within the meaning of section 9(a) of the Income War Tax Act, as it was in force in 1940, or whether he was merely sojourning there within the meaning of section 9(b). Section 9 provides in part as follows:

9. There shall be assessed, levied and paid upon the income during the preceding year of every person (a) residing or ordinarily resident in Canada during such year; or (b) who sojourns in Canada for a period or periods amounting to one hundred and eighty-three days during such year; or

"The terms 'residing' and 'ordinarily resident' are not defined in the act, and apart from *In re Income Tax Act*¹, there is a dearth of Canadian authority on the question under review. There are, however, many cases in the United Kingdom, in which the terms, as they appear in the income tax acts of Great Britain, have been considered, that are helpful.

"The words are common English words and resort may be had to dictionaries to determine their meaning. The word 'sojourns' may be dealt with in the same way. The

Shorter Oxford English Dictionary gives the meaning of 'reside' as being 'to dwell permanently or for a considerable time, to have one's settled or usual abode, to live, in or at a particular place'. By the same authority 'ordinarily' means '1. In conformity with rule; as a matter of regular occurrence. 2. In most cases; usually, commonly. 3. To the usual extent. 4. As is normal, usual.' On the other hand the meaning of the word 'sojourn' is given as 'to make a temporary stay in a place, to remain or reside for a time'. Sojourning is the temporary, from day to day stay of a transient or visitor, whereas residing implies a regular and usual relationship.

"The cases, as it will be seen, really carry one no further than the dictionary, and, in the main, are but useful illustrations of the circumstances under which a person may be considered as residing or ordinarily resident in a place or country.

English Cases Cited

"The cases clearly indicate that a person must reside somewhere, *Rogers v. Inland Revenue*². When it is a question whether a man is resident in a country, it is not necessary that he should have a fixed place of abode therein, for even a homeless tramp in a country may be a resident of it, *Reid v. The Commissioners of Inland Revenue*³. Residence in a place must indicate something more than mere presence as Lord Hanworth, M.R. said in *Levene v. The Commissioners of Inland Revenue*⁴. Indeed, it has been established, ever since *In re Young*⁵, that constant personal appearance in a place is not essential to residence there, and that a person may continue to be resident in a place although not physically absent from it. In that case, a master mariner, trading between Glasgow and foreign ports, having a house for his wife and family in Glasgow, was held to be 'residing in Great Britain' and liable for assessment on his salary, notwithstanding that he was abroad for the greater part of the year. At page 59, the Lord President (Inglis) said: 'Anything like continuous residence is not a thing that this statute can be held to contemplate at all, if by continuous residence were meant constant personal presence in one place'; and later: 'I have no doubt myself that if a man has his ordinary residence

in this country, it does not matter much whether he is absent for a greater or a shorter period of each year from that residence or from the country itself. That is a thing that depends a good deal on a man's occupation, or it may be on his tastes and habits, especially in the latter case, if he is a man not requiring to be engaged in business for his maintenance.'

"The appellant's contention that he has been a resident of Bermuda since 1923 may be dismissed curtly. His motions in going there, making an affidavit as to his intentions, renting a house, which he never used, and obtaining a passport were a pure farce. In my view, he never became a resident of Bermuda, but whether that is so or not, he was certainly not a resident of Bermuda in 1940. He had not been there since 1933 and his entry into Canada as a tourist from Bermuda was purely fictitious. Even if he were a resident of Bermuda that would not prevent him from being a resident of Canada as well for it is well established that while a person can have only one domicile, he can have more than one residence, *Lloyd v. Sully*⁶. In that case a merchant carrying on business in Italy where he ordinarily resided also owned a place of residence in the United Kingdom, at which he dwelt with his family for several months in the year. He was held to be a resident in the United Kingdom and liable to income tax in respect of the profits of the business carried on abroad. At page 41, the Lord President (Inglis) said: 'Now if a man could only be resident in one place in any particular year there might be a great difficulty, but surely there is nothing more familiar to one's mind than that a man has during a particular year or during a course of years, residences in different places existing at the same time. A man cannot have two domiciles at the same time, but he certainly can have two residences.' And later he said of the various residences a man may have: 'These are all residences in the proper sense of the term, that is to say, they are places to which it is quite easy for the person to resort as his dwelling place whenever he thinks fit, and to set himself down there with his family and establishment.' The same view was taken in *Cooper v. Cadwalader*⁷. There an American ordinarily resident in New York with no place of business in the United Kingdom rented a house and shooting rights in Scotland where he spent about two months con-

tinuously in each year. It was held that he was a person 'residing in the United Kingdom' and liable to income tax assessment.

The Reid Case

"The words 'ordinarily resident' have been considered in a number of cases. In *Reid v. The Commissioners of Inland Revenue*³ the facts were striking. For a number of years prior to May, 1916, the appellant, a British subject, shared a house in Glasgow with two sisters, but partly for considerations of health was in the habit of travelling abroad for the greater part of the year spending only the summer months in the United Kingdom. In May, 1916, the house was given up and the furniture sold, and from that time the appellant lived in hotels in Glasgow and London until July, 1919, when she again went abroad. Except for a four day visit to London in September, 1919 she remained abroad, travelling about from place to place on the continent of Europe, till the end of June, 1920. She then came back and stayed at a hotel in London until October 14, 1920, when she returned to the continent and remained abroad until after April 5, 1921, when she returned to London. While on the continent she had no place of residence in the United Kingdom or any apartments reserved for her use, but she had a banking account in London, and her personal effects were stored there. The appellant contended that she was not ordinarily resident in the United Kingdom for the two years ending April 5, 1921, and claimed exemption from income tax for those years under a section of the Income Tax Act of 1918 granting such exemption to a person who was not 'ordinarily resident in the United Kingdom'. The special commissioners found that the appellant was ordinarily resident in the United Kingdom for the years in question and, on an appeal being taken, it was held that there was evidence upon which the commissioners could come to their decision and that they had not misdirected themselves in law. At page 680, the Lord President (Clyde), after setting out the facts, said: 'It was contended on her behalf, that, even if these facts are consistent with her being held to 'reside' in the United Kingdom, they are inconsistent with the view that she 'ordinarily' so resides. And here again the argument was that the meaning of the word 'ordinarily' is governed—

wholly or mainly— by the test of time or duration. I think it is a test, and an important one; but I think it is only one among many. From the point of view of time, 'ordinarily' would stand in contrast to 'casually'. But the appellant is not a 'casual' visitor to her home country; on the contrary she regularly returns to it, and 'resides' in it for a part—albeit the smaller part—of every year. I hesitate to give the word 'ordinarily' any more precise interpretation than 'in the customary course of events' and anyhow I cannot think that the element of time so predominates in its meaning that, unless the appellant 'resided' in the United Kingdom for at least six months and a day, she could not be said 'ordinarily' to reside there in the year in question.'

The Levene Case

"In *Levene v. The Commissioners of Inland Revenue*^o the facts were that the appellant, a British subject, leased a house in London until March, 1918. He then surrendered his lease, sold his furniture, and until January, 1925, had no fixed abode but stayed at hotels either in England or abroad. Until December, 1919, he stayed in England and it was admitted that up to that date he was both resident and ordinarily resident in the United Kingdom. In that month he went abroad and did not return until July, 1920, and from that date until January, 1925, he spent between four and five months each year in the United Kingdom, the reason for his visits being to obtain medical advice for himself and his wife, to visit relatives and the graves of his parents, to take part in certain Jewish religious observances and to deal with his income tax affairs. In January, 1925, he leased a flat abroad and expected to continue to make visits to the United Kingdom though not to such an extent as in the past. The appellant contended that for the years 1920-21 to 1924-25 he was neither resident nor ordinarily resident in the United Kingdom and that he was entitled to certain exemptions in consequence thereof. The special commissioners came to the conclusion that he was resident and ordinarily resident in the United Kingdom in the years in question and the courts refused to reverse this conclusion. Rowlatt J. dismissed the appeal and both the Court of Appeal and the House of Lords unanimously agreed with his judgment in so doing. At page 493, Row-

latt J. said: 'Now it seems to me what the phrase 'ordinary residence' means is this: I think that 'ordinary' does not mean preponderating, I think it means ordinary in the sense that it is habitual in the ordinary course of a man's life, and I think a man is ordinarily resident in the United Kingdom when the ordinary course of his life is such that it discloses a residence in the United Kingdom, and it might disclose a residence elsewhere at the same time. Therefore, I think, as has been thought in Scotland, that a man can have two ordinary residences not because he commonly is to be found at those places, but because the ordinary course of his life is such that he acquires the attribute of residence at those two places.' In the House of Lords, Viscount Cave, L.C., said, at page 506: 'The suggestion that in order to determine whether a man ordinarily resides in this country you must count the days which he spends here and those which he spends elsewhere, and that it is only if in any year the former are more numerous than the latter that he can be held to be ordinarily resident here, appears to me to be without substance.' And at page 509, Lord Warrington of Clyffe made this important statement: 'I do not attempt to give any definition of the word 'resident'. In my opinion it has no technical or special meaning for the purposes of the Income Tax Act. 'Ordinarily resident' also seems to me to have no such technical or special meaning. In particular it is in my opinion impossible to restrict its connotation to its duration . . . If it has any definite meaning I should say it means according to the way in which a man's life is usually ordered.'

"It is, I think, settled that the question of whether a person is ordinarily resident in one country or in another cannot be determined solely by the number of days that he spends in each; he may be ordinarily resident in both if his stay in each is substantial and habitual and in the normal and ordinary course of his routine of life.

The Lysaght Case

"The last important United Kingdom case is *Lysaght v. The Commissioners of Inland Revenue*¹⁰. In that case the appellant until 1919 lived in England where he was engaged in business as director and general manager of a company. In that year he partially retired but retained the post of advisory director; he sold his English residence and

his family went to live permanently in Ireland. He himself went to Australia in 1919 for the company, and on his return took a furnished house in Somerset going backwards and forwards to Ireland until 1920, when he went to reside with his family in Ireland. Since then he had no definite place of abode in England. He however came every month to directors' meetings in England where he remained on the company's business for about a week each time, staying either at hotels or at his brother's house. The total numbers of days spent in England for the three years ended April 5, 1923, April 5, 1924, and April 5, 1925, were 101, 94 and 84 respectively, while he spent 48 days there in the period from April 5, 1925, to September 25, 1925. He owned a small three acre field in England which he was anxious to sell, he had no business activities in Ireland save the management of his estate, his main banking account was in Ireland although he had a small account in Bristol, and the registered address of his various securities was in Ireland. The appellant contended that for the years 1922-23 and 1923-24 he was neither resident nor ordinarily resident in the United Kingdom and was entitled to the exemptions which such a status would give him. The special commissioners decided that his claims for exemption failed and this conclusion was finally sustained by the House of Lords. Rowlatt J. felt that he could not differ from the commissioners in their finding that the appellant was both resident and ordinarily resident in the United Kingdom for each of the two years in dispute and dismissed the appeal. The Court of Appeal reversed this judgment, Lawrence L.J. dissenting, but it was restored by the House of Lords, Viscount Cave, L.C., dissenting.

"The *Lysaght Case* (*supra*) is important for a number of reasons. In the first place, it shows how far, on the facts, the authorities in the United Kingdom have gone in finding that a person is resident or ordinarily resident in the United Kingdom. Then, it clearly establishes that a person may reside in a country, not as a matter of free choice on his part, but because he is compelled to do so. At page 535, Lord Buckmaster dealt with this question and also the term 'ordinarily resident': He said: 'It would appear that the element of choice is regarded by the Court of Appeal as a factor of great, if not of final, consequence in determining residence. In my opinion this reasoning is

not sound. A man might well be compelled to reside here completely against his will'; and later: 'If residence be once established 'ordinarily resident' means in my opinion no more than that the residence is not casual and uncertain but that the person held to reside does so in the ordinary course of his life.' The real importance of the case, however, lies in the fact that it finally established that the question whether a person is resident or ordinarily resident in the United Kingdom within the meaning of the income tax acts of that country is a question of fact. It seems to have been assumed in the earlier cases that it was a question of law to be applied to the facts of the case in question. In *Reid v. The Commissioners of Inland Revenue* (*supra*), the Lord President (Clyde) pointed out the difficulties involved in defining the terms. At page 678, he said: 'The expression 'resident in the United Kingdom' and the qualification of that expression implied in the word 'ordinarily' so resident are just about as wide and general and difficult to define with positive precision as any that could have been used. The result is to make the question of law become (as it were) so attenuated, and the field occupied by the questions of law become so enlarged, as to make it difficult to say that a decision arrived at by the commissioners with respect to a particular state of facts held proved by them, is wrong.' This reasoning implied that the question was one of mixed law and fact, but mainly fact. The matter came to a head in the *Lysaght Case* (*supra*). Rowlatt J. really regarded the finding of the commissioners as one of fact. In the Court of Appeal a contrary view prevailed. Lord Hanworth, M.R., held at page 519: 'The meaning of 'residence' in the Income Tax Act must be a question of law; . . . this court can reconsider the case upon the question of the meaning of 'residence' in law, and ought to hold that the facts found do not satisfy that meaning and constitute residence.' Sargant, L.J., also agreed that the conclusion of whether a man is resident was a conclusion of law, and Lawrence, L.J., although dissenting in the result, was of the same view. In the House of Lords the dispute was settled by the majority of the members of the court. Lord Buckmaster's judgment was read by Lord Atkinson, who concurred in it. At page 533, Lord Buckmaster is reported as follows: 'The distinction between questions of fact and

questions of law is difficult to define, but according to the respondent whether a man is resident or ordinarily resident here must always be a question of law dependent upon the legal construction to be placed upon the provisions of an act of parliament. I find myself unable to accept this view. It may be true that the word 'reside' or 'residence' in other acts may have special meanings, but in the income tax acts it is, I think, used in its common sense and it is essentially a question of fact whether a man does or does not comply with its meaning.' Lord Warrington of Clyffe took the same view. At page 536, he said: 'I have reluctantly come to the conclusion that it is now settled by authority that the question of residence or ordinary residence is one of degree, that there is no technical or special meaning attached to either expression for the purposes of the Income Tax Act, and accordingly a decision of the commissioners on the question is a finding of fact.'

A Question of Fact

"I see no reason why the same view should not be taken in Canada and hold that the terms 'residing' and 'ordinarily resident' in section 9(a) of the Income War Tax Act have no technical or special meaning and that the question whether in any year a person was 'residing or ordinarily resident in Canada' within the meaning of the section is a question of fact.

"It should, perhaps, be noted that the determination of this question does not assume the same importance in Canada as it does in the United Kingdom, where there is no appeal from the special commissioners except on questions of law and the courts do not review their findings of fact. In Canada the situation is different for under the Income War Tax Act the taxpayer has the same right of appeal, unless it has been taken away from him by some specific section of the act, in respect of questions of fact as he has in respect of those of law.

Was Resident in Canada

"As I view the facts, they present no difficulty and I agree with the conclusion of the taxing authorities that they disclose that in 1940 the taxpayer was residing or ordinarily resident in Canada. There is no substance in the appellant's contention that when he was at East River-

side he was merely sojourning there. There was nothing of a transient character about his stay there. He lived there regularly with his wife and family and his staff of servants. The house at East Riverside was a permanent one. He kept a housekeeper and his wife there throughout the year and the house was always available to him as his place of abode. The fact that he chose to stay there only while the weather made it pleasant to play golf is quite immaterial and does not affect the question. His liability to income tax assessment based upon residence cannot be determined by the fact that when it was too cold to play golf at East Riverside, he chose to go to Pinehurst to play golf there. Nor is the question of residence determined by the number of days spent at East Riverside. The regular and usual relationship implied in the term 'residing' is present in this case. He stayed at East Riverside during a substantial part of each year, and his stay was habitual. Moreover he resided at East Riverside in the ordinary course of his life. There was nothing of an unusual or casual character about it. He lived and played there as long as it suited his pleasure to do so. His residence at East Riverside was in the course of the regular, normal and usual routine of his life. In my opinion the facts are conclusive that in 1940 the appellant was both residing and ordinarily resident in Canada within the meaning of section 9(a) of the act and I so find. Section 9(b) has nothing to do with the matter.

Interpretation of the Act

"That being so, the only question that remains is the meaning of the words 'during such year' in section 9(a) of the act. The word 'during' may have two meanings, one being 'throughout the whole continuance of' and the other 'in the course of'. It was contended on behalf of the appellant that the term must be given the former meaning and that, consequently, the appellant was not liable, even if he was residing or ordinarily resident in Canada, since such residence was not throughout the whole continuance of the year. While it is established that a taxing act must be construed strictly, this does not mean that the canons of construction to be applied to it should be different from those applicable to any other act. In all cases the true intent of the act must be ascertained. It may perhaps be

noted that the words 'during such year' were not in the act prior to the Revised Statutes of Canada, 1927, but were inserted by the commissioners in charge of the revision. It is, I think, clear that they are referable to the words 'during the preceding year' in the earlier part of the section and were meant to make certain that the assessment upon income should be for the same year as that of the residence. That was, I think, the purpose of inserting the words. They were intended to indicate the year of the incidence of liability to assessment, not to make any change in its nature or extent. Ordinarily, a word is used in the same sense wherever it appears in an act. In that view, it would be as reasonable to contend that there should be no liability to assessment upon income in a case where it was received only in the course of a year and not during the whole continuance of it as to advance the contention put forward by the appellant. Section 9 clearly intended to draw a distinction between residents and sojourners, the former being subject to tax apart from any factor of time, but the latter being liable only if their sojourn exceeded a certain number of days. The adoption of the appellant's contention would not only import into the terms 'residing' and 'ordinarily resident' the necessity of continuous physical presence, a connotation which they do not carry, but would open the door to wholesale tax evasion and make the section largely nugatory; the sojourner for 183 days would be subject to tax, but a resident for a much longer period would be free; indeed, he would escape liability altogether if he took up residence outside of Canada for even a small portion of the year. This would be an absurd result. It is well settled that when a word may have two meanings it should be read with reference to its context and the court should adopt that meaning which is in accord with the object of the act and reject the one that would render the act nugatory or lead to absurd results. In my view, the words 'during such year' in section 9(a) mean merely 'in the course of, or in such year'. In 1942 the words were changed to read 'at any time in such year'. The change removed all possibility of ambiguity but was, I think, merely declaratory of what was always the true intendment of the previous words.

"The appellant's contentions in this appeal are quite untenable. The surprising thing is that the taxing authorities did not catch up with him sooner. The appeal is dismissed with costs. Judgment accordingly."

References

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| ¹ (1933) 41 M.R. 621. | ⁶ (1884) 2 T.C. 37. |
| ² (1879) 1 T.C. 225. | ⁷ (1904) 5 T.C. 101. |
| ³ (1926) 10 T.C. 673. | ⁸ (1926) 10 T.C. 673. |
| ⁴ (1928) 13 T.C. 486 at 496. | ⁹ (1928) 13 T.C. 486. |
| ⁵ (1875) 1 T.C. 57. | ¹⁰ (1928) 13 T.C. 511. |

Personals

W. Stempel, chartered accountant, announces the opening of offices in Calgary and Lloydminster, Alberta, as at April 15, 1945. G. G. Patrick, chartered accountant, announces that the Saskatoon and Yorkton offices, formerly operating under the name of Stempel and Patrick, will be continued under the name of G. G. Patrick and Company, as from April 15, 1945. J. H. Parker, chartered accountant, will continue as manager of the Yorkton office.

Arthur A. Crawley & Company, chartered accountants, announce that their Toronto office is now located at 357 Bay Street, room 708, in charge of Stuart G. Hennessey, B.Com., C.A.

Book Reviews

Canada Tax Cases, 1944. Edited by H. H. Stikeman. 243 pages. \$12.50 per copy. Published by Richard De Boo Limited, 137 Wellington St. West, Toronto, Ont. This volume contains annotated judgments on income, excess profits, sales, excise and war exchange taxes and business assessment, from all the Dominion and provincial courts, including the Exchequer Court of Canada, and appeals to the Judicial Committee of the Privy Council. A topical index to the subject matter of forty cases is also included.

The Wartime Salaries Order. A study of this order as amended to December, 1944, has been compiled by the Tax Editorial Department of Richard De Boo Limited, and a supply is available in booklet form for general distribution.

Letters To The Editor

Dear Sir:

Will you and your contributor please accept my thanks for your kindly references to myself in your March issue. I trust that you will be able to find room in an early issue for this letter.

I was born in 1886 of Northern English parents near Liverpool, and joined the 5th Argylls in 1912. I served in Gallipoli, the Sinai, and Palestine—but not in France. I came out to Canada to teach accountancy at McGill University in 1921. I resigned in August 1944. One of my greatest honours was the task of writing the history of the 52nd Division.

I hope that all of my friends—which include, I believe, all of my students—know how much I miss them and what they meant to me.

Kindest regards and again many thanks,

March 21, 1945.

ROBERT R. THOMPSON, C.A.

DONATIONS

Dear Sir:

May I bring to your attention the subject of donations for the year 1944, as treated in the Income Tax Handbook prepared by Mr. Arthur W. Gilmour and published recently by the Association.

On Pages 59 and 60 the amount which may be deducted from businesses or companies under the 100% Excess Profits Tax is limited to one of three amounts, but it would appear from the Act that the amount which may be deducted should be either: (1) The average of annual donations made in the two fiscal periods ending before 1st July, 1942; or (2) that portion of 1944 donations paid or promised prior to 1st February, 1944. This more liberal interpretation is set out, correctly in my opinion, in an example on Page 61 of the Income Tax Handbook.

It would appear that all donations should be scrutinized carefully for the year 1944 as to date of payment and also as to date of commitment if paid after 1st February, 1944.

16th April, 1945.

LAURENCE C. CRAWFORD, C.A.
Niagara Falls, Canada.

Current Accounting Literature

By Frank S. Capon, C.A.

IT IS not possible to summarize the review of wartime reserves by E. B. Wilcox in the March 1st N.A.C.A. Bulletin (385 Madison Ave., New York 17). This is one article that all responsible accountants must read for themselves—and I do mean must. Since the beginning of the war all companies have been providing reserves against one or more types of possible losses arising out of the war, and in practically every case the amounts required were not capable of accurate determination, and often were mere guesses. The point has now been reached when many of the earlier possible losses can now be accurately determined, when some earlier fears can be proven groundless, and when all companies should review these reserves and set the house in order for the transition period. Mr. Wilcox goes over all of the main points that need review, and his article can well be used as a checklist by accountants who have the responsibility of preparing or auditing corporate financial statements.

National Thrift and the Public Debt

Dun and Bradstreet, Inc. have released a booklet with the above title by Roy A. Foulke which outlines briefly the growth of the public debt of the United States from 1790 to the current date. Mr. Foulke starts with a review of Alexander Hamilton's "First Report on the Public Credit" and then traces the trends of public finance through times of peace and war, depression and boom. It is of interest to note that surpluses were recorded in 94 of the 156 years reviewed. The inevitable conclusion is that the public credit depends upon sound government finance, balanced budgets over a period of years, and sincere efforts towards public thrift and debt reduction.

Corporate Income Statements

If there is any truth in the old saying "Where there's smoke, there's fire", we can expect some radical changes in the "official" form of financial statements before long. Accounting periodicals are being smoked out with articles calling for changes, some with sound new thoughts, but most with nothing particularly outstanding. One of the soundest articles I have read recently is "The Form and

Content of Corporate Income Statements" by Warren W. Nissley in the March "Journal of Accountancy" (13 East 41st Street, New York 17). In calling for the inclusion of all items affecting equity in the income statement, Mr. Nissley presents well reasoned arguments that bridge the gap between the "historic" and "earning power" concepts of the income statement. He stresses that income statements are not really historical documents since they must be prepared long before the accountant has had a chance to get the necessary perspective to produce an historical document, and he points out the dangers in using earnings based on "usual transactions" to forecast future earnings, as fluctuations in so-called normal factors (sales volume, costs, wage rates, etc.) can be far more important than the inclusion of so-called unusual items in the income statement. Here is an article that puts forth both sides of a heated argument in a cool, level-headed manner, and therefore makes a real contribution to the almost continuous debate now in progress.

Educational Program of the American Institute

The outline of the educational program of the American Institute of Accountants by Thomas W. Leland in the March "Journal of Accountancy" underscores the importance of education to accountants. Subjects that are being considered by many as necessary for inclusion in the education program for accountants may be summarized as follows: (a) study of professional ethics; (b) mathematics; (c) correct use of English, ability clearly, correctly and concisely to express thoughts in writing and orally; (d) economic theory, taxation, management, labour policies, statistical methods, budgeting, investments and marketing. This is an imposing list, and calls for a high degree of education, according to Mr. Leland, requiring at least a college degree. While it may not be practicable in Canada to require a college degree as a necessary qualification for admission to the profession, it will always be true that the continual improvement of our educational and training programs is the only sound way to increase the abilities of accountants and the stature of the profession. Mr. Leland outlines the immediate program of the American Institute, including proposed CPA laws, relationship with universities, selection of personnel and refresher courses for veterans.

Effect of the Gregory Case on U.S. Taxation

The case of Gregory vs. Helvering is one of the most far-reaching in the entire realm of taxation and the article by R. S. Holtzman in the March "Journal of Accountancy", outlining the effect of this case on U.S. tax decisions during the past ten years, is of interest to all students of taxation. The decision was to the effect that a reorganization might be complete within the letter of the law, but if it had no business purpose, it was not in effect a reorganization, and could not be treated as such for tax purposes. This principle has been extended to all transactions made to avoid or minimize taxation, and while the courts have repeatedly ruled that the taxpayer has every right to minimize taxation by legal means, Mr. Holtzman shows the importance of ensuring that such means are in effect real transactions, and not the type that can be set aside as having no practical business effect.

Realization and Liquidation Statement

A proposed new form of realization and liquidation statement is presented by L. W. Sherritt in the March "Journal of Accountancy". The suggested columnar form undoubtedly presents a clearer summary of the liquidation transactions than the conventional form in use for many years.

Responsibilities of the Industrial Accountants

In a speech reprinted in the 24th February issue of "The Accountant" (London, Eng.), Mr. Basil Smallpiece, A.C.A., discusses the professional responsibilities of the industrial accountant. There seems to be a tendency, even a growing tendency, for qualified accountants in industry to set themselves apart from the profession, to forget that their responsibilities to the profession are as great as those of the practising members. There is also, of course, a tendency for practising accountants to assume that industrial accountants have practically no professional responsibilities. Mr. Smallpiece summarizes these responsibilities admirably for the benefit of both public and industrial accountants, particularly emphasizing the need for upholding correct accounting principles often in the face of pressure to do the opposite. The isolation from the profession makes the industrial accountant even more liable to this pressure. Accounting is a profession, and we are all

accountants, so any time spent on bringing practising and industrial accountants closer together is time well spent.

Work Simplification

Work simplification, J.I.T., J.R.T., J.M.T.—these are comparatively new and strange terms to accountants, but we are going to see much of them from now on. The March "Cost and Management" (66 King Street East, Hamilton) contains a reprint of a speech by A. Herrgen explaining work simplification, and the application of job instruction training, job relationship training and job methods training. These are the keys to efficiency, and without efficiency we have little hope of going through the reconversion period without losing our standards of living.

Reconversion to Peace

Under the heading "Investment Policy" an article in the February "Accountants' Magazine" (Edinburgh, Scotland) discusses the financial problems that will be faced in returning to peace. Dividing the first five or six post-war years into the "transition" and "restoration" periods, the problems to be met are summarized as follows:

Transition problems: Time of reconversion of different industries; availability of labour and materials; repeal of E.P.T., financing of termination; politics—general election.

Restoration problems: Government control of industry and investment; fiscal policy; price levels; industrial trends. We must meet these financial problems if we are to emerge successfully from war, and accountants can make an everlasting contribution to society and to their own welfare by rapidly developing their skills and technical ability along these lines in order to fight the battles of transition and reconversion.

Company Law

The Company Law Amendment Committee in England, under Mr. Justice Cohen, has completed hearing evidence and is preparing its report. We in Canada are fortunate that the British are going ahead with this job now, as we must face it in the near future and will be in a position to benefit from the Cohen Committee's findings. The March issue of "Accountancy" (London, Eng.) contains an article reviewing the evidence presented to the committee, commenting particularly on the universal pleas for compulsory consolidated statements, flexibility in form of statements, and authoritative and dynamic leadership in accounting matters from the accounting profession.

Succession Duty Cases

THE tax status, under the Ontario Succession Duty Act, of shares transferable outside the province, was dealt with in three closely related cases by the Ontario Court of Appeal in February, 1945. In each case the court decided the shares in question were not taxable. The deceased in each case was a resident of the United States.

Th decision in the first case, *The King vs. Globe Indemnity Company*, was cited in the judgments in the two other cases. The summaries below are quoted through courtesy of Dominion Law Reports.

The King vs. Globe Indemnity Co.

In this case the shares, comprising part of the estate of Thomas Kerr of Detroit, Michigan, were in Lake Shore Mines Limited, which company maintains a transfer office at Buffalo, New York, as well as one in Ontario. The decision is summarized as follows:

"A provincial legislature, being limited in its taxing power by s. 92(2) of the B.N.A. Act, cannot enlarge the scope of such power in relation to intangible property by fixing the situs thereof in disregard of the common law rules or principles applicable in the determination of that question.

"For the purposes of taxation, share in a company can have only one local situation, which is ascertained by reference to the test 'Where can the shares be effectively dealt with as between the shareholder and the company so that a transferee will become legally entitled to all the rights of a shareholder'. The applicability of this test is not affected by the fact that there are two or more places which answer it, and in such case the court may, in order to determine the one local situation, rely subsidiarily on such factors as are important to the practical and convenient administration of the shares.

"Shares in a company, incorporated in Ontario and having its head office there and transfer agents in Ontario and New York, duly appointed and authorized to effect transfers at their respective offices, which are owned by a person who dies resident and domiciled in Michigan having there the share certificates unendorsed, are not property in Ontario within s. 9(a) of the Succession Duty Act, R.S.O.

1937, c. 26, especially when the executor of the deceased owner has not sought to transfer them into his name in Ontario under s. 62 of the Companies Act, R.S.O. 1937, c. 251, but has sought to effect such a transfer on the New York registry which, under resolution of the company's board of directors was established as an office where 'shareholders may have their stock registered and transferred within the United States of America', and not merely within the State of New York."

Maxwell re The King

In *Maxwell re The King* the shares were in International Nickel Company of Canada Limited, comprising part of the estate of F. T. Maxwell of Connecticut. The company had transfer offices in Ontario, Quebec, England and New York. The following is a summary of the decision:

"Shares in a Dominion company, having its head office in Ontario and transfer agents in Ontario, Quebec, England and New York duly appointed and authorized to effect transfers at their respective offices, which are owned by a person who dies resident and domiciled in Connecticut having there the share certificates unendorsed, do not have their situs in Ontario and hence are not subject to duty under s. 5(a) of the Succession Duty Act, 1939 (Ont. 2nd Sess.), c. 1. Duty paid by the deceased owner's executors in order to obtain a transfer of the shares to complete a sale, but under protest, may be recovered."

Re Aberdeen

In the third case, *re Aberdeen*, there were shares of Dome Mines Limited and of Nipissing Mines Limited comprising part of the estate of James D. Aberdeen of Massachusetts. Both of these mining companies had transfer agents in New York as well as in Ontario. This decision is summarized as follows:

"Shares in an Ontario and a Dominion Company, each having its head office in Ontario and transfer agents in Ontario and in New York at the offices of which the shares are transferable, owned by a person who dies domiciled in Massachusetts having there the share certificates unendorsed, are not property situate in Ontario and hence are not subject to duty under s. 5(a) of the Succession Duty Act, 1939 (Ont. 2nd Sess.), c. 1."

Provincial News

Quebec

Prizes awarded to top-ranking candidates in 1944 examinations for the degree of chartered accountant were presented at the annual dinner of the Society of Chartered Accountants of the Province of Quebec, held at the Windsor Hotel on April 5th, by president H. C. Hayes.

Guest speaker at the dinner was the Honourable Mr. Justice W. H. Harrison, D.S.O., former chairman of the Board of Referees under the Excess Profits Tax Act.

C. Fraser Elliott, Deputy Minister (Taxation) spoke in response to a toast to guests proposed by Colonel P. F. Seymour, first vice-president of the Society.

The prizewinners honored at the dinner were Maurice Ouellette, awarded the Society's First War Memorial Prize for highest standing in the province in the final examinations, and John A. MacDonald, the Second War Memorial Prize. The winner of the War Memorial Prize in the intermediate examinations was Frederic C. Standing.

The complete list of 1944 graduates who received their certificates at the dinner follows: G. Allard, A. W. Bell, M. Bilodeau, E. M. Boulter, M. Caron, G. R. Chalifour, J. S. Chodos, J. N. Domey, R. M. Dumas, R. Dussault, A. R. Faggiolo, M. Forest, A. Gauthier, M. Laliberté, Miss E. M. Lauder, H. Lavoie, F. E. Leblanc, G. A. Lortie, J. A. MacDonald, J. M. Mireault, B. Morency, E. Morissette, Miss H. Orbane, M. R. Ouellette, V. Paul, J. A. Reekie, M. M. Richler, M. Rivard, G. A. Roussin, J. J. Rufange, J. Sirois, Y. Sirois, E. Thibodeau, J. M. E. Tildesley, R. O. Wilson.

A special feature of the proceedings was a presentation, commemorating his completion of 50 years as a member of the Society, to Dr. John W. Ross of the firm of P. S. Ross & Sons. Tribute to Dr. Ross was paid by C. F. Elderkin, immediate past president of the Society, as follows:

"We have a very pleasant function to perform this evening in paying tribute to one of the most distinguished members of our profession in Canada—Dr. John W. Ross. It is 50 years this month since Dr. Ross became a member of this Society and in that 50 years he has never failed to take a keen and active interest in its affairs. He served on the council and as an officer on many occasions and as president in the years 1903 to 1905. He is a senior past

president of the Society and its second senior member. In the latter category he gladly defers to his elder brother—Major-General J. G. Ross—whom we are very pleased to have with us this evening.

"As a member of the firm which was founded by his father, the late Phillip S. Ross, a charter member and past president of the Society. Dr. Ross has contributed much to the outstanding reputation enjoyed by that firm today. In addition, he has served on the directorate of many of Canada's most prominent industrial and financial organizations.

"Dr. Ross is equally well known in public affairs. He was for many years an executive and later president of the Montreal Board of Trade. He took a prominent part in the formation of the Canadian Chamber of Commerce and later became chairman of the Canadian section of the joint committee of the United States and Canadian Chambers of Commerce. He was honorary secretary-treasurer and governor of McGill University for many years and from that Institute received the honorary degree of Doctor of Laws in recognition of his outstanding services to the University, to the community and to the country.

"Dr. Ross has always taken an enthusiastic interest in the many war charities and service organizations both in the last war and during the present struggle. In particular, he has devoted a great deal of time and work to the Y.M.C.A., of which he was an executive for many years.

"It has been said in speaking of that fine citizen Phillip S. Ross that he and his family have contributed much to this Canada of ours and it can truly be said of Dr. Ross that he indeed has been a worthy member of that family.

"Dr. Ross, I have been asked to present this silver tray to you and I would like to read the inscription thereon:

'John W. Ross, LL.D.—Presented by his fellow members of The Society of Chartered Accountants of the Province of Quebec on the occasion of the fiftieth Anniversary of his admission to membership—1895-1945.'

"This is but a small token of our appreciation of the many contributions which you have made to this Society and to the profession as a whole; it is also meant as an anniversary present on the occasion of the 50 years of your membership and carries with it our sincere wishes for many more anniversaries and a life of continued activity, health and happiness."

Obituaries

The Late Robert Allen Scott

The Institute of Chartered Accountants of Alberta regrets to announce that Captain Robert Allen Scott, who was previously reported missing, was officially reported to have been taken prisoner of war and to have died of wounds in captivity on October 27, 1944. Captain Scott was born in Edmonton. He graduated in Commerce from the University of Alberta, and entered upon articles with G. D. K. Kinnaird, C.A., of Kinnaird & Aylen. Upon passing the final examinations he was admitted to the Institute of Chartered Accountants of Alberta in 1941, and went overseas in 1942. He was wounded in Sicily but recovered and served in Italy till he returned to England early in 1944. Shortly after D-Day he landed in France, and served in the Canadian forces in France, Belgium and Holland.

To his parents, Captain and Mrs. R. J. Scott, brothers and sisters, the Institute extends its sincere sympathy.

The Late Edward Charles Shaughnessy

The Institute of Chartered Accountants of Alberta announces with regret that Edward Charles Shaughnessy passed away on March 31, 1945. He was born in Toronto and served three years as student-at-accounts with Wilton C. Eddis & Sons, chartered accountants. Owing to ill health he went to Edmonton and articulated to E. D. C. Thomson of George A. Touche & Company, chartered accountants. Later he joined the staff of the Provincial Auditor, Edmonton. In 1933 he commenced private practice as a chartered accountant in Drumheller, Alberta, but in 1935 returned to the provincial government service to take charge of the Calgary office of the provincial income tax branch. A year later he was appointed acting superintendent of income tax with headquarters in Edmonton. In 1942 he resigned to open his own office as a chartered accountant in Edmonton, which he carried on until his last illness. As a member of the Kinsmen Club he took a great interest in the anti-tuberculosis drive and was one of those who formed the Alberta Tuberculosis Association, which he served as president for two years.

To his wife and daughter the Institute extends its deepest sympathy in their great loss.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

A report recently issued by the American Treasury upon the currencies used by the allies in the occupied countries makes interesting reading. It appears that a new currency, the Allied military mark, has been introduced in the occupied parts of Germany, both east and west, just as the western allies introduced a military lira in Italy. The goods and services bought by spending these notes must come out of German and Italian resources respectively.

It will be recalled that a different procedure was followed in the invasion of North and West Africa where the Americans issued yellow seal dollars which were valid American currency but were marked for statistical purposes. These gave the French a claim on American goods or services and have by now been used almost completely for such payments. In the case of the "liberated" countries, Belgium and Holland, there were legally recognized governments who had prepared new note issues (that for Holland was printed in Canada) but at the time of the liberation of France the French National Committee was not recognized by the United States as the legal government of France and thus the famous "American francs" came to be printed in agreement with the British Government and after consultation with the French Committee. Since then the French Government has assumed responsibility for all the invasion francs issued since D-Day. The United States Treasury therefore is under no liability to redeem these notes but it has undertaken to pay dollars to the French, as to the other allies, for the net amount of invasion currency used for the pay and allowances of the American troops in those countries.

* * *

Figures which are of great interest to accountants but which may not have come to the notice of all of our readers are those contained in an "Analysis of Changes in Working Capital of 678 Canadian Companies" over the years 1936-1943 inclusive. These figures were prepared by the Bank of Canada and published in the December 1944-January 1945 issue of the "Statistical Summary" of the Bank and

show for all companies taken together over the years 1939 to 1943 a net increase of 490 million dollars, represented, in large part, by increase in holdings of marketable securities (304 millions) and increase in inventories (344 millions) offset by increases in accounts payable and tax liabilities. The value of this information is enhanced by the circumstance that in November 1944 the Securities and Exchange Commission (Statistical Series, Release No. 745) published the results of a similar study directed to all American corporations exclusive of banks and insurance companies for the years 1936 to 1944 inclusive. This latter report showed an increase of 17 billion dollars in net working capital. American companies showed a greater relative increase than Canadian companies in both cash and holdings of marketable securities, while the relative increase in inventories was about the same for both groups.

The amount of work involved in the preparation of application of funds statements for all the companies covered by these two studies must have been prodigious, but there can be no doubt of the social value of this sort of accounting analysis in which the two north American countries have the distinction of pioneering.

* * *

PUZZLE

On a circular track 25 centimeters in diameter a house fly and an ant ran a race. The stride of the ant was 5-10 millimeters in length; three of his strides equalled one of the house fly's. In two minutes the ant made 2,000 strides; the house fly 500.

- Given: (1) the race was for 300 meters.
(2) after eight hours the house fly began to cheat by flying to the point on the race track diametrically opposite to him, in the space of one second every alternate round, from that minute on;
(3) at the same instant the ant sprained one of his ankles so that he could take only 1,200 strides every two minutes.

Which won the race? At the finish, what was the time of each contestant? What was the distance covered while running by the house fly? How many times did the ant run around the track?

STUDENTS' DEPARTMENT

PROBLEMS AND SOLUTIONS

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

INTERMEDIATE EXAMINATION, DECEMBER 1944

Accounting I, Question 2 (15 marks)

The balance sheet of a limited company shows the following items:

Accounts receivable	\$219,000
Inventories	58,000
Miscellaneous reserves and other credits	136,000

Upon investigation, you find the above items are made up as follows:

Accounts Receivable:

Customers' debit balances	\$190,000
Customers' credit balances	15,000
	<hr/>
	\$175,000
Deposits on merchandise ordered	5,000
Cash advanced to managing director	10,000
Unpaid subscriptions for share capital	10,000
Advance to travelling salesmen	1,000
Consignees' accounts (full selling price of goods shipped on consignment credited to sales)	7,500
Claims against railroad company	500
Investments in shares of other companies	10,000
	<hr/>
	\$219,000

Inventories:

Raw materials	\$ 15,000
Factory supplies	2,000
Advertising (cuts, plates, etc.)	2,000
Materials for plant construction	1,500
Goods in process	18,500
Goods in stock on consignment	4,500
Finished goods	10,000
Office supplies	500
C.O.D. sales awaiting shipment (cost \$2,200)	3,000
Insurance prepaid	700
Scrapped raw material	300
	<hr/>
	\$ 58,000

Miscellaneous Reserves:

Reserve for depreciation	\$ 50,000
" " doubtful accounts	20,000
" " sales discounts	1,000
" " income tax	25,000
" " reappraisal of plant	10,000
" " contingencies	10,000
Premium on capital stock	15,000

THE CANADIAN CHARTERED ACCOUNTANT

Premium on bonds payable 5,000

\$136,000

Required:

State the correct captions under which the items comprised in the above three general captions should be shown in the balance sheets, together with any explanations you consider necessary.

SUGGESTED SOLUTION

The several items should be shown as follows:

Accounts Receivable

<i>Present Grouping</i>		<i>Correct Grouping</i>
Customers' debit balances	\$190,000.00	Accounts receivable.
Customers' credit balances	15,000.00	Accounts payable, or as separate item in current liabilities, as there is a liability to refund.
Deposits on merchandise ordered	5,000.00	Accounts receivable, or shown separately.
Cash advanced to managing director ..	10,000.00	Separate item in current assets—a requirement of the Companies Act.
Unpaid subscriptions for share capital ...	10,000.00	Should be shown under the heading of "Capital" as a deduction from share capital subscribed.
Advances to travelling salesmen	1,000.00	Shown separately under current assets.
Consignees' accounts	7,500.00	Should be reduced to cost and included as inventory.
Claims against rail-road company	500.00	As there is a possibility of non-collection, should be shown separately, or be reversed and a memorandum entered on balance sheet.
Investments in shares of other companies	10,000.00	Should be shown as "Investments", with market quotations and appropriate detail.

Inventories

Raw materials	\$15,000.00	Inventory—with proper detail as to value, method of determination and certification.
Goods in process	18,500.00	
Finished goods	10,000.00	
C.O.D. sales awaiting shipment	2,200.00	
Scrapped raw material	300.00	
Factory supplies	2,000.00	Deferred charge, or separate inventory.
Advertising	2,000.00	Deferred charge.
Office supplies	500.00	Deferred charge, or separate inventory.
Insurance prepaid	700.00	Deferred charge.
Materials for plant construction	1,500.00	Inventory, under heading of "Capital assets".
Goods in stock on consignment	4,500.00	Should be eliminated and shown as a note on the balance sheet.

STUDENTS' DEPARTMENT

Miscellaneous Reserves

Reserve for depreciation	\$50,000.00	Deduct from capital assets.
Reserve for doubtful accounts	20,000.00	Deduct from accounts receivable.
Reserve for sales discounts	1,000.00	Deduct from accounts receivable.
Reserve for income tax	25,000.00	Current liability.
Reserve for reappraisal of plant	10,000.00	Capital surplus.
Reserve for contingencies	10,000.00	Other forms of surplus.
Premium on capital stock	15,000.00	Capital surplus—Paid in.
Premium on bonds payable	5,000.00	Deferred credit.

PROBLEM II

FINAL EXAMINATION, DECEMBER 1944

Accounting I, Question 2 (20 marks)

The condensed annual operating statement of Atlas Castings Ltd., a concern which uses copper as its raw material, shows the following figures:

Sales	585,000
Cost of Sales	
Raw materials	271,200
Direct labour	90,000
Factory overhead	130,000
	<u>491,200</u>
Manufacturing profit	93,800
Less: General and administrative expense	30,000
	<u>\$ 63,800</u>
Net profit	

Your client has been asked to subscribe for stock in the company, but before doing so, he asks you to make a complete investigation into the above figures. Upon inquiry, you find that the sales consist of five orders and an examination of the calculations upon which selling prices were based shows the following figures:

Order	Material			Factory			
No.	Quantity	Price	Value	Labour	Overhead	Profit	Total
516	360,000 lbs.	15c	\$ 54,000	\$16,000	\$ 24,000	\$18,000	\$112,000
517	500,000 lbs.	14c	70,000	16,000	24,000	15,000	125,000
518	800,000 lbs.	15c	120,000	20,000	30,000	21,000	191,000
519	300,000 lbs.	16c	48,000	10,000	15,000	2,000	75,000
520	300,000 lbs.	12c	36,000	12,000	18,000	16,000	82,000
	<u>2,260,000 lbs.</u>		<u>\$328,000</u>	<u>\$74,000</u>	<u>\$111,000</u>	<u>\$72,000</u>	<u>\$585,000</u>

The manager explains that the figure for profit is also intended to cover general and administrative expense and that no separate calculation is made for these factors when prices are quoted. The raw materials account appears as follows:

Inventory to commence	150,000 lbs.	\$ 18,000
Purchases	2,310,000 lbs.	283,200
	<u>2,460,000 lbs.</u>	<u>301,200</u>

THE CANADIAN CHARTERED ACCOUNTANT

Inventory at end	200,000 lbs.	30,000
Used in operations	2,260,000 lbs.	271,200

Required:

You are required:

- (a) To indicate what conclusions might be reached from a scrutiny of the above figures.
- (b) To say what other inquiries you might make before submitting a report to your client.

SUGGESTED SOLUTION

(a) It would seem that:—

- (1) The estimating department either consistently under-estimates the amount of direct labour on each job or that wage rates are increasing steadily.
- (2) Factory overhead has not been added to labour and material on a basis which would "spread" the actual cost for the year in dollars over the orders available.
- (3) The most important factor in the discrepancy between actual cost and estimates is in the price of raw material. The "Raw Materials" account shows that the average cost of the 2,260,000 lbs. used was 12c per lb., whereas when quotations were made it was estimated at prices varying from 12c to 16c per lb. Apparently the market price has risen rapidly during the period, or else the orders for the concern's requirements of copper were placed some time before the beginning of the year, at very advantageous prices. In any event, it is fairly apparent that the company has made the major portion of its profits out of purchases of raw materials at less than current prices, i.e. it has placed orders for raw materials ahead of time, on a rising market. (It can only be supposed that it was quoting in competition with other concerns who were paying market prices—as high as 16c per lb.—and basing its own offers accordingly, even paring its estimates of labour and overhead).

Sooner or later, the price trend will be reversed and if the concern is then taking in raw material on old contracts at what will then be high prices, it is highly probable that substantial losses will result. Offhand, it would seem that the concern should "hedge" its commitments in copper, but if it had done so during the year under review, presumably the raw materials would have cost \$328,000, or thereabouts, as against \$271,200, involving a reduction in profits of \$56,800 to \$7,000.00. Generally, it is fairly evident that the client should be warned that the profits arose out of successful speculation in raw materials and not out of manufacturing efficiency.

(b) Further inquiries might be directed towards:—

- (1) An examination of the purchase contracts for raw materials taken in during the year, noting particularly:—
 - (a) Date of contract. (b) Delivery date. (c) Price at time of purchase. (d) Market price at time of delivery (to be obtained from newspapers, commodity exchange, or some similar reliable source).
- (2) A scrutiny of sales contracts entered into but not yet put into process, noting the price at which copper is taken into the calculations, and the total quantity required to complete the orders.
- (3) Listing all open purchase orders or contracts for raw material, as to quantities, prices, &c. and a comparison of the latter with prevailing market prices, so as to establish whether or not losses are likely to be suffered in the near future.